2019 CONSOLIDATED FINANCIAL STATEMENTS OF FIRSTONTARIO CREDIT UNION LIMITED

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REPORT ON MANAGEMENT RESPONSIBILITY

The accompanying Consolidated Financial Statements and all information contained in this Annual Report are the responsibility of the Management of FirstOntario Credit Union Limited, which is responsible for the integrity and fairness of the information presented. The Consolidated Financial Statements, in the opinion of Management, have been prepared using appropriate accounting policies that are in accordance with International Financial Reporting Standards and the Credit Unions and Caisses Populaires Act, 1994 (Ontario), and are based on informed judgments and estimates of the expected effects of current events and transactions.

To meet its responsibility for the integrity and objectivity of data in the Consolidated Financial Statements, Management has developed and maintains a system of internal accounting controls. Management believes that this system of internal controls provides reasonable assurance that the financial records are reliable and form a proper basis for preparation of Consolidated Financial Statements and that assets are properly accounted for and are safeguarded.

The Board of Directors is responsible for reviewing and approving the Consolidated Financial Statements and for overseeing Management's performance of its financial reporting responsibilities. The Board of Directors carried out its responsibility for the Consolidated Financial Statements through its regular review of financial results and operations and through its Audit and Risk Committee. The Member-appointed auditors have full and free access to, and meet periodically with, the Audit and Risk Committee and may meet with the Board of Directors, with or without Management present, to discuss their audit and matters relating to financial statement presentation, internal controls and audit procedures.

The Financial Services Regulatory Authority of Ontario conducts periodic examination of the financial conditions and affairs of FirstOntario. The examination includes review of FirstOntario's compliance with the provisions of the Act.

KPMG LLP, Member-appointed external auditors, has examined the Consolidated Financial Statements in accordance with Canadian generally accepted auditing standards and their independent auditors' report is shown as part of the Consolidated Financial Statements.

Lloyd Smith, CPA, CGA, CCE Chief Executive Officer	Barry Doan, CPA, CA, MAcc Chief Financial Officer

March 5, 2020

REPORT OF THE AUDIT AND RISK COMMITTEE

FirstOntario Credit Union Limited's Audit and Risk Committee is a committee of the Board of Directors pursuant to Section 125 of the Credit Unions and Caisses Populaires Act, 1994 (Ontario) and Section 27 of Ontario Regulation 237/09. The Committee, which consists of six directors, has a mandate to cover all of the duties, which are specified to be performed by audit committees in the Regulations of the Act.

The Audit and Risk Committee is pleased to report to the Members of FirstOntario that it has fulfilled its annual mandate. During the year the Committee held 10 meetings and completed the following significant activities:

(a) Served as the principal communication link between the external auditors and the Board of Directors and, in particular, reviewed the terms of engagement and scope of the audit and reviewed FirstOntario's annual financial statements prior to Board approval for issuance to the Members.

(b) Obtained a reasonable understanding of the important elements of internal controls that are important to safeguarding the assets of FirstOntario, ensuring the accuracy of financial reports and ensuring compliance with policies and procedures.

(c) Served as the Board's liaison with the internal auditor and reviewed the internal audit mandate, work plan and reports.

(d) Reviewed the policies, procedures and controls, which relate to legislative compliance, with a particular focus on requirements for liquidity, capital adequacy and interest rate management.

(e) Reviewed management's identification of the significant risks of FirstOntario in accordance with the Enterprise Risk Management policy and ensured processes were in place to measure, monitor, manage and mitigate significant risk exposures including appropriate policies, procedures and controls.

There are no significant recommendations made by the Audit and Risk Committee that have not been either implemented or are in the process of being implemented. In addition, there are no matters which the Audit and Risk Committee believes should be reported to the Members, other than as described above, nor are there any further matters that are required to be disclosed pursuant to the Act or the Regulations thereto.

Based on its findings, the Audit and Risk Committee issues reports and makes recommendations to the Board of Directors or senior management, as appropriate, with respect to the matters outlined above and follows up to ensure that the recommendations are considered and implemented. During the year, the Committee received full co-operation and support from management to enable it to play an effective role in maintaining the quality of financial reporting to the Members and enhancing the overall control structure of FirstOntario.

Stu Walker
Chair, Audit and Risk Committee

March 5, 2020

KPMG LLP
Commerce Place
21 King Street West, Suite 700
Hamilton ON L8P 4W7
Canada
Telephone (905) 523-8200
Fax (905) 523-2222

INDEPENDENT AUDITORS' REPORT

To the Members of FirstOntario Credit Union Limited

Opinion

We have audited the accompanying consolidated financial statements of FirstOntario Credit Union Limited (the "Credit Union"), which comprise:

- the consolidated statement of financial position as at end of December 31, 2019
- the consolidated statement of income for the year then ended
- the consolidated statement of income and other comprehensive income for the year then ended
- the consolidated statement of changes in members' equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Credit Union as at end of December 31, 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Credit Union's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Credit Union or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Credit Union's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada
March 5, 2020

FIRSTONTARIO CREDIT UNION LIMITED
Consolidated Statement of Financial Position

As at December 31, 2019, with comparative information for 2018

(In thousands of dollars)	2019	2018
Assets		
Loans Receivable from Members		
Residential mortgage loans (note 5)	**$ 3,080,625**	$ 2,722,818
Personal loans (note 5)	**103,590**	118,869
Commercial loans (note 5)	**793,666**	747,565
Accrued interest receivable	**18,187**	19,754
	3,996,068	3,609,006
Other		
Cash and cash equivalents (note 7)	**25,712**	62,317
Investments (note 9)	**540,122**	495,853
Fixed assets (note 10)	**57,700**	39,109
Derivative financial instruments (note 16)	**1,648**	443
Other assets	**8,392**	6,109
	$ 4,629,642	$ 4,212,837
Liabilities		
Members' Deposits and Shares		
Deposits (note 12)	**$ 3,616,266**	$ 3,289,238
Membership shares (note 13)	**8,707**	9,213
Investment shares (note 13)	**12,049**	12,425
Accrued interest on deposits and shares	**22,515**	21,528
	3,659,537	3,332,404
Other		
Loans payable and securitization liabilities (note 15)	**652,340**	608,088
Lease liabilities (note 11)	**19,149**	-
Accounts payable and accrued liabilities	**58,853**	45,573
Derivative financial instruments (note 16)	**1,211**	1,195
	4,391,090	3,987,260
Members' Equity		
Investment shares (note 13)	**110,261**	106,934
Contributed surplus	**4,865**	4,865
Retained earnings	**127,514**	116,857
Non-controlling interest	**(122)**	(73)
Accumulated other comprehensive loss	**(3,966)**	(3,006)
	238,552	225,577
	$ 4,629,642	$ 4,212,837

See accompanying notes to Consolidated Financial Statements.

On behalf of the Board:

Carey Smith
Board Chair

Stu Walker
Chair, Audit and Risk Committee

FIRSTONTARIO CREDIT UNION LIMITED
Consolidated Statement of Income

For the year ended December 31, 2019, with comparative information for 2018

(In thousands of dollars)		**2019**		2018
Interest Income				
Members' loans (note 5)	**$**	**144,657**	$	129,774
Other		**7,085**		3,176
		151,742		132,950
Interest Expense				
Members' deposits (note 12)		**70,527**		50,938
Dividends on membership and investment shares (note 13)		**1,135**		1,150
Loans payable and securitization liabilities (note 15)		**14,306**		15,851
Other		**85**		97
		86,053		68,036
Net Interest Income		**65,689**		64,914
Provision for impaired loans (note 6)		**(3,297)**		(2,445)
Other income (note 20)		**42,447**		31,418
Net Interest and Other Income		**104,839**		93,887
Non-interest Expenses				
Salaries and employee benefits		**51,152**		46,504
Administrative		**15,188**		17,856
Technology		**11,556**		11,084
Occupancy		**8,116**		7,485
Donations and community sponsorship		**1,436**		1,550
		87,448		84,479
Income before Income Taxes		**17,391**		9,408
Income taxes (note 21)		**3,247**		1,339
Consolidated Net Income for the year	**$**	**14,144**	$	8,069
Net Income attributable to FirstOntario Credit Union Limited		**14,193**		8,142
Net Loss attributable to Non-controlling interest		**(49)**		(73)
Consolidated Net Income for the year	**$**	**14,144**	$	8,069

See accompanying notes to Consolidated Financial Statements.

FIRSTONTARIO CREDIT UNION LIMITED
Consolidated Statement of Income and Other Comprehensive Income

For the year ended December 31, 2019, with comparative information for 2018

(In thousands of dollars)		**2019**		2018
Consolidated Net Income for the year	**$**	**14,144**	$	8,069
Other Comprehensive Income (Loss)				
Items that are or may be reclassified subsequently to net income:				
Net loss on cash flow hedges		**(765)**		(1,276)
Net gain on cash flow hedges transferred to earnings		**822**		855
Related income taxes (note 21)		**(11)**		78
Items that are not recycled or reclassified to net income:				
Actuarial gain (loss) on employee benefits, net of tax (note 19)		**(1,006)**		1,228
		(960)		885
Total Income and Other Comprehensive Income for the year	**$**	**13,184**	$	8,954

See accompanying notes to Consolidated Financial Statements.

FIRSTONTARIO CREDIT UNION LIMITED
Consolidated Statement of Changes in Members' Equity

For the year ended December 31, 2019, with comparative information for 2018

(In thousands of dollars)	Investment shares	Contributed surplus	Retained earnings	Non-controlling interest	Accumulated Other Comprehensive Income (Loss): Cash flow hedging reserve	Accumulated Other Comprehensive Income (Loss): Employee benefits	Total
Balance, January 1, 2019	**$ 106,934**	**$ 4,865**	**$ 116,857**	**$ (73)**	**$ (1,379)**	**$ (1,627)**	**$ 225,577**
Shares issued during the year	**4,340**	**-**	**-**	**-**	**-**	**-**	**4,340**
Shares redeemed during the year	**(1,013)**	**-**	**-**	**-**	**-**	**-**	**(1,013)**
Net income for the year	**-**	**-**	**14,193**	**(49)**	**-**	**-**	**14,144**
Dividends paid (net of tax recovery $804)	**-**	**-**	**(3,536)**	**-**	**-**	**-**	**(3,536)**
Other comprehensive income (loss)	**-**	**-**	**-**	**-**	**46**	**(1,006)**	**(960)**
Balance, December 31, 2019	**$ 110,261**	**$ 4,865**	**$ 127,514**	**$ (122)**	**$ (1,333)**	**$ (2,633)**	**$ 238,552**

(In thousands of dollars)	Investment shares	Contributed surplus	Retained earnings	Non-controlling interest	Accumulated Other Comprehensive Income (Loss): Cash flow hedging reserve	Accumulated Other Comprehensive Income (Loss): Employee benefits	Total
Balance, January 1, 2018	$ 104,208	$ 4,865	$ 112,067	$ -	$ (1,036)	$ (2,855)	$ 217,249
Shares issued during the year	4,217	-	-	-	-	-	4,217
Shares redeemed during the year	(1,491)	-	-	-	-	-	(1,491)
Net income for the year	-	-	8,142	(73)	-	-	8,069
Dividends paid (net of tax recovery $865)	-	-	(3,352)	-	-	-	(3,352)
Other comprehensive income (loss)	-	-	-	-	(343)	1,228	885
Balance, December 31, 2018	$ 106,934	$ 4,865	$ 116,857	$ (73)	$ (1,379)	$ (1,627)	$ 225,577

See accompanying notes to Consolidated Financial Statements.

FIRSTONTARIO CREDIT UNION LIMITED
Consolidated Statement of Cash Flows

For the year ended December 31, 2019, with comparative information for 2018

(In thousands of dollars)	2019	2018
Cash Flows from Operating Activities		
Consolidated net income for the year	**$ 14,144**	$ 8,069
Adjustments for:		
Amortization of fixed assets	**8,564**	5,277
Net change in fair value of assets recorded as fair value through profit or loss	**(18,333)**	(9,673)
Loss on sale of investments	**16**	36
Net changes in accrued employee retirement benefits	**1,258**	(1,204)
Other non-cash items, net	**4,567**	(14,204)
Net interest income	**(65,689)**	(64,914)
Income tax expense	**3,247**	1,339
Changes in operating assets:		
Net change in loans receivable from Members	**(388,629)**	(213,734)
Net change in derivative assets held for risk management	**(383)**	794
Changes in operating liabilities:		
Net change in deposits	**327,028**	504,892
Net change in derivative liabilities held for risk management	**(749)**	957
Interest received	**153,309**	135,210
Interest paid	**(83,846)**	(60,052)
Income tax paid	**(2,032)**	(1,276)
Cash flows (used in) from operating activities	**(47,528)**	291,517
Cash Flows from Financing Activities		
Net redemptions in membership shares	**(1,069)**	(28)
Net redemptions in investment shares	**(1,918)**	(2,234)
Principal payments on leases	**(2,426)**	-
Net change in loans payable and securitization liabilities	**44,252**	(193,671)
Cash flows from (used in) financing activities	**38,839**	(195,933)
Cash Flows from Investing Activities		
Net investment purchases	**(20,721)**	(70,144)
Net investment income	**(1,636)**	-
Proceeds on disposition of investment	**19**	-
Purchase of fixed assets, net of disposals	**(5,578)**	(6,221)
Cash flows used in investing activities	**(27,916)**	(76,365)
Cash and cash equivalents		
Net (decrease) increase during year	**(36,605)**	19,219
Balance at beginning of year	**62,317**	43,098
Balance at end of year	**$ 25,712**	$ 62,317

See accompanying notes to Consolidated Financial Statements.

1. Corporate Information:

FirstOntario Credit Union Limited (“FirstOntario”) is a financial institution incorporated in Ontario which operates in compliance with the Credit Unions and Caisses Populaires Act of Ontario (the “Act”) and is a member of Central 1 Credit Union (“Central 1”). The location of the head office and principal place of business of FirstOntario is 970 South Service Road, Stoney Creek, Ontario, L8E 6A2.

FirstOntario exists to help Members meet their financial needs in their local communities. FirstOntario’s principal activities are the provision of deposit-taking, lending and other financial services.

FirstOntario’s Member deposits are insured by the Financial Services Regulatory Authority of Ontario (“FSRA”) under a mandatory program, the expense for which amounted to $2,666,000 (2018 - $2,040,000). At December 31, 2019, there were 118,500 Members (2018 – 115,415).

2. Basis of Preparation:

Statement of compliance

The Consolidated Financial Statements of FirstOntario have been prepared in accordance with International Financial Reporting Standards (“IFRS”). IFRS comprise of accounting standards issued by the International Accounting Standards Board (“IASB”) as well as interpretations issued by the IFRS Interpretations Committee.

These financial statements were approved by FirstOntario’s Board of Directors on March 5, 2020. The significant accounting policies used in the preparation of these Consolidated Financial Statements are summarized below and have been applied consistently to all periods presented in the financial statements. Certain comparative figures have been reclassified to conform to the current year’s financial statement presentation.

Details of FirstOntario’s accounting policies, including changes during the year, are included in Notes 3 and 23. As explained in Note 23, FirstOntario has adopted IFRS 16 *Leases* issued in January 2016 with a date of initial application of January 1, 2019.

Use of estimates and judgments

The preparation of Consolidated Financial Statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts in revenue and expenses during the reporting year. Actual future results could differ from those estimates.

2. Basis of Preparation (continued):

Use of estimates and judgments (continued)

Items which result in the most significant areas of application of judgment and estimates include the following:

(a) Fair value of financial instruments:

Where fair value of financial assets and liabilities cannot be derived from active markets, FirstOntario uses valuation techniques that include inputs derived from either observable market data or utilizing management judgment. Refer to Note 18 for information relating to these estimates.

(b) Allowance for impairment on loans:

FirstOntario assesses whether credit risk has increased significantly since loan origination, estimates probability of default and loss given default, and incorporates forward-looking information in the measurement of expected credit loss on its loan portfolio.

Refer to Note 6 for information relating to these estimates.

(c) Employee retirement benefits:

FirstOntario estimates the present value of employee retirement benefits, which depends on a number of assumptions including discount rates, expected salary and other cost increases, and mortality rates. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Refer to Note 19 for information relating to these estimates.

(d) Hedging and securitizations:

FirstOntario enters into securitization and hedging transactions which require management’s best estimates of key assumptions that market participants would use in determining fair value. For more information relating to these estimates refer to Note 8 for securitizations and Note 17 for hedges.

3. Significant Accounting Policies:

These consolidated financial statements have been prepared on a going concern basis. The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. The policies have been consistently applied to all of the periods presented.

(a) Basis of consolidation:

The Consolidated Financial Statements include the assets, liabilities and results of the operations of FirstOntario, 1320818 Ontario Limited, FirstOntario Insurance Holdings Inc. (“FOIH”) and FirstOntario Insurance Brokerage Inc. (“FOIB”).

1320818 Ontario Limited is a wholly owned subsidiary of FirstOntario. 1320818 Ontario Limited supplies information technology services and operates the banking system for FirstOntario. All intercompany transactions and balances have been eliminated.

FOIH is a wholly owned subsidiary of FirstOntario. FOIH is a holding company which manages FirstOntario’s holdings in FOIB. FOIH holds 51% of the ownership interests and voting rights of FOIB. All intercompany transactions and balances have been eliminated.

Investments in which FirstOntario exercises joint control are accounted for as a joint venture, whereby FirstOntario’s share of revenue and expenses of the joint ventures are included in the Consolidated Statement of Income. FirstOntario’s net share of the assets (liabilities) of the investments are included in the Consolidated Statement of Financial Position. Investments are considered to be jointly controlled if there is a contractual agreement to share authority over determining the investments’ operating, investment and financing policies. The joint ventures in which FirstOntario participates include real estate development for the purpose of resale as well as retail and commercial complexes that generate rental and leasing income.

(b) Financial instruments – recognition and measurement:

FirstOntario initially recognizes loans, deposits and mortgage securitization liabilities on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which FirstOntario becomes a party to the contractual provisions of the instrument.

All financial assets and liabilities are initially measured at fair value, plus transaction costs that are directly attributable to its acquisition or issue, for an item not at fair value through profit and loss (“FVTPL”). Subsequent measurement is dependent upon the financial instrument’s classification.

Financial assets and liabilities comprise cash and cash equivalents, derivatives, investments, loans receivable from Members, Members’ deposits and shares, loans payable, securitization liabilities, accounts payable and accrued liabilities.

3. Significant Accounting Policies (continued):

(b) Financial instruments – recognition and measurement (continued):

Classification and measurement of financial instruments

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit and loss ("FVTPL").

The amortized cost of a financial instrument is the amount at which the instrument is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest rate method, and for financial assets, adjusted for any expected credit loss allowance.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, FVOCI financial assets are measured at fair value whereby the unrealized gains and losses are recorded in other comprehensive income ("OCI") and included in accumulated other comprehensive income ("AOCI"). Upon derecognition, the cumulative gains or losses of debt instruments are reclassified from OCI and recorded in the Consolidated Statement of Income.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, FirstOntario may irrevocably elect to present subsequent changes in FVOCI. This election is made on an investment by investment basis. Upon derecognition, any cumulative gains or losses in OCI on equity investments so designated is not recognized in profit or loss.

All other financial assets are classified as measured at FVTPL. Financial instruments measured at FVTPL are subsequently measured at fair value at each reporting date. Gains and losses realized on disposal together with dividends and interest earned on these instruments are reported in interest and other income. Unrealized gains and losses from changes in fair value are reported separately in other income in the Consolidated Statement of Income.

3. Significant Accounting Policies (continued):

(b) Financial instruments – recognition and measurement (continued):

On initial recognition, FirstOntario may irrevocably designate a financial instrument that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

Business model assessment involves determining whether financial assets are held and managed by FirstOntario for generating and collecting contractual cash flows, selling the financial assets or both. FirstOntario makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue or realizing cash flows through the sale of the assets;
- how the performance of the asset is evaluated and reported to FirstOntario's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed;
- how managers of the business are compensated (for example, whether compensation is based on the fair value of the assets managed or the contractual cash flows collected);
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

If upon origination of a financial asset, based on established criteria, the financial asset is expected to be securitized as part of a portfolio that qualifies for derecognition, the business objective of holding the financial asset to collect contractual cash flows is not met. Such financial assets are measured at FVTPL. If the financial asset is expected to be securitized as part of a portfolio that does not qualify for derecognition, the held to collect business model is considered to be met, and the financial asset is measured at amortized cost.

Assessment whether contractual cash flows are solely payments of principal and interest

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement, that is, if they represent cash flows that are solely payments of principal and interest ("SPPI").

3. Significant Accounting Policies (continued):

(b) Financial instruments – recognition and measurement (continued):

Principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding and other basic lending risks and costs (for example, liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, FirstOntario considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after FirstOntario changes its business model for managing financial assets. There were no changes to any of FirstOntario's business models during the current year.

Financial Liabilities

FirstOntario classifies its financial liabilities as measured at amortized cost or FVTPL.

FirstOntario has designated certain financial liabilities as FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Classification of investment instruments is outlined in Note 9. Classification of all financial instruments is outlined in Note 18.

Effective interest rate method

Interest income and expense are recognized in the Consolidated Statement of Income using the effective interest method. The calculation of the effective interest rate includes transaction costs, fees and discounts or premiums that are an integral part of the effective yield on the financial asset or liability.

The effective interest rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. When calculating the effective interest rate for financial instruments other than credit-impaired assets, FirstOntario estimates future cash flows considering all financial terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

3. Significant Accounting Policies (continued):

(b) Financial instruments – recognition and measurement (continued):

Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issuance or disposal of a financial asset or liability. Transaction costs related to FVTPL financial assets and liabilities are expensed as incurred. Transaction costs relating to amortized cost financial instruments are capitalized and amortized over the expected life of the instrument using the effective interest method.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statement of Financial Position when, and only when, FirstOntario has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

Identification and measurement of impairment losses

FirstOntario recognizes loss allowances for expected credit loss ("ECL") on financial instruments that are not measured at FVTPL. Loss allowances are measured at an amount equal to lifetime ECL, except for financial instruments on which credit risk has not increased significantly since their initial recognition, for which they are measured at 12-month ECL. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

ECL is a probability-weighted estimate of credit losses, which considers multiple scenarios based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Forward-looking information is explicitly incorporated into the estimation of ECL.

Measurement of expected credit losses

The determination of whether the ECL is calculated on a 12 month or lifetime basis is dependent on the stage the financial asset falls into at the reporting date. A financial instrument moves across stages based on an increase or decrease in its risk of default at the reporting date compared to its risk of default at initial recognition. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, FirstOntario considers reasonable and supportable information that is relevant and available without undue cost or effort. There is a rebuttable presumption that the risk of default of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

3. Significant Accounting Policies (continued):

(b) Financial instruments – recognition and measurement (continued):

In assessing whether a financial asset is credit-impaired, FirstOntario considers qualitative and quantitative factors. Evidence that a financial asset is credit-impaired includes significant financial difficulty of the borrower or issuer, a breach of contract such as a default or past due event, and/or it becoming probable that the borrower or issuer will enter bankruptcy or other financial reorganization. In addition, a loan that is overdue for 90 days or more is considered impaired.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL is measured as follows:

- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; and
- if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Presentation of allowance for expected credit losses

Loss allowances for ECL are presented in the Consolidated Statement of Financial Position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and undrawn component, and FirstOntario cannot identify the ECL on the loan commitment component separately from those on the drawn component: FirstOntario presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the Consolidated Statement of Financial Position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

3. Significant Accounting Policies (continued):

(b) Financial instruments – recognition and measurement (continued):

Write-offs

Impaired financial assets are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when FirstOntario determines the borrower cannot generate sufficient cash flows to repay the amounts subject to write-off. However, financial assets that are written off could still be subject to collection activities in compliance with FirstOntario's procedures. In subsequent periods, recoveries against written off loans are credited to the provision for impaired loans in the Consolidated Statement of Income.

Refer to Note 6 for further details.

Derivative financial instruments

Derivative financial instruments are financial contracts whose value is derived from interest rates or other financial indices in the equity markets. In the ordinary course of business, FirstOntario enters into various derivative contracts, including interest rate swaps, equity-linked options, foreign exchange forwards and bond forwards. FirstOntario enters into such contracts to manage interest rate fluctuations and foreign exchange risk as part of FirstOntario's asset/liability management program.

Interest rate swaps involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based. Equity-linked options are purchased to hedge deposit products whose interest is linked to various equity indices or a specific bundle of equities. These contracts pay returns based on the change in value of equity indices or a specific bundle of equities.

Foreign exchange contracts are used to hedge FirstOntario's net US dollar liability position.

Derivatives are measured at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. In both cases they are reported as derivative financial instruments in the financial statements.

Derivatives embedded in other financial instruments are separated from the host contract and accounted for separately if their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivatives would meet the definition of a derivative if it was a free standing instrument, the combined contract is not designated as FVTPL and recorded at fair value, and the host contract is not an asset in the scope of IFRS 9. These embedded derivatives are classified as part of the host instrument and measured at fair value with changes therein recognized on the Consolidated Statement of Income.

Accrued interest receivable is recorded in other assets and accrued interest payable is recorded in accounts payable and accrued liabilities. Interest income or expense is recorded in interest income or interest expense, as applicable.

3. Significant Accounting Policies (continued):

(b) Financial instruments – recognition and measurement (continued):

<u>Hedge accounting</u>

FirstOntario formally documents all relationships between hedging instruments and hedged items; as well as risk management objectives and strategies for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities recognized on the Consolidated Statement of Financial Position or specific firm commitments or forecasted transactions that are highly probable to occur and prevent exposure to variations in cash flows that could ultimately affect reported net income. FirstOntario also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risk. FirstOntario designates its interest rate hedge agreements as hedges of the underlying financial instrument.

IFRS specifies the criteria that must be satisfied in order for hedge accounting to be applied and prescribes the accounting treatment for those permitted hedging strategies applicable to FirstOntario – fair value hedges and cash flow hedges.

In a fair value hedge, the change in fair value of the hedging derivative is offset on the Consolidated Statement of Income by the change in fair value of the hedged item relating to the hedged risk. FirstOntario utilizes fair value hedges primarily to convert fixed rate financial assets and liabilities to floating rate. The main financial instruments designated in fair value hedging relationships are loans and mortgages. If the derivative expires or is sold, terminated or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued prospectively. The fair value of the hedged item related to the hedged risk is reported as other assets. The fair value of the hedging instrument is recorded as a derivative asset or liability.

In a cash flow hedge, the effective portion of changes in fair value of the derivative is recognized in other comprehensive income ("OCI") and presented in the cash flow hedging reserve in equity. The amount recognized in OCI is reclassified and included on the Consolidated Statement of Income in the same period that the hedged cash flows affect income. This will be offset by net interest income on assets and liabilities that are hedged. FirstOntario utilizes cash flow hedges primarily to convert floating rate assets and liabilities to fixed rate. Any hedge ineffectiveness is measured and is immediately recognized in the Consolidated Statement of Income.

When either a fair value or cash flow hedge is discontinued, any cumulative adjustment to either the hedged item or other comprehensive income (loss) is recognized in income over the remaining term of the original hedge (fair value hedge) and as the hedged item impacts earnings (cash flow hedge) or immediately if the forecast transaction is no longer expected to occur.

3. Significant Accounting Policies (continued):

(c) Loan securitizations:

FirstOntario securitizes residential mortgages and commercial loans by legally selling them to funding partners. Securitized assets are assessed for derecognition under IFRS 9. When the derecognition criteria are met, the assets are derecognized from the Consolidated Statement of Financial Position.

Securitized residential mortgages that are assessed under IFRS 9 generally do not meet derecognition requirements as substantially all of the risks and rewards of the loans are held with FirstOntario. As a result, these loans are reported on the Consolidated Statement of Financial Position. Certain securitized residential mortgages subsequently met the derecognition criteria through the transfer of certain risks and rewards to external parties.

Commercial loans sold met the derecognition requirements and are not reported on the Consolidated Statement of Financial Position as substantially all of the risks and rewards of the loan are transferred to the funding partner and FirstOntario has received consideration in exchange. For those commercial loans sold, no gain is recorded as the consideration received is equivalent to the carrying value of the asset.

Revenue from servicing loans and mortgages is recorded as the services are provided.

(d) Cash and cash equivalents:

Cash and cash equivalents includes cash on hand, current accounts, short term deposits with other financial institutions, cheques and other items in transit. They are carried at amortized cost in the Statement of Financial Position.

(e) Investments:

Investments include debt investment securities measured at amortized cost, debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL, and equity investment securities designated as at FVOCI.

(f) Intangible assets:

Computer software that is not an integral part of other property is accounted for as intangible assets. Computer software is stated at cost less accumulated amortization and accumulated impairment losses and is presented as part of fixed assets in the Consolidated Statement of Financial Position. Amortization of computer software is calculated by applying the straight-line method at rates based on estimated useful lives between 3 and 14 years. Amortization methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

3. Significant Accounting Policies (continued):

(g) Fixed assets:

Fixed assets are stated at cost less accumulated amortization and accumulated impairment losses. When parts of an item of fixed assets have different useful lives, they are accounted for as separate items (major components) of fixed assets. Amortization is based on the cost of an asset less its residual value. Major components are amortized separately. Land is not amortized. Amortization on buildings and equipment is recognized in net income using the straight-line method at rates based on the estimated useful lives of the related assets and components as follows:

Asset	
Buildings	20 – 40 years
Parking lots and site improvements	10 – 25 years
Equipment	3 – 10 years
Leasehold improvements	Shorter of useful life and term of lease + one renewal period

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(h) Leases:

Policy Applicable from January 1, 2019:

At the inception of a contract, FirstOntario assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

FirstOntario, as a lessee, recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, FirstOntario's incremental borrowing rate. Generally, FirstOntario uses its incremental borrowing rate as the discount rate.

3. Significant Accounting Policies (continued):

(h) Leases (continued):

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in FirstOntario's estimate of the amount expected to be payable under a residual value guarantee, if FirstOntario changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in net income if the carrying amount of the right-of-use asset has been reduced to zero.

FirstOntario presents right-of-use assets in fixed assets and lease liabilities in the Consolidated Statement of Financial Position.

FirstOntario has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. FirstOntario recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before January 1, 2019:

For contracts entered into before January 1, 2019, FirstOntario determined whether the arrangement was or contained a lease based on the assessment of whether:

- Fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- The arrangement had conveyed a right to use the asset.

FirstOntario did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognized in FirstOntario's Consolidated Statement of Financial Position. Payments made under operating leases were recognized in net income on a straight-line basis over the term of the lease.

(i) Investment properties:

Investment properties are properties held for rental, development and/or for capital appreciation. These investment properties are initially measured at cost and subsequently at fair value with any change therein recognized in profit or loss. Investment properties primarily consist of land and buildings held under joint venture agreements.

(j) Shares:

Membership and investment shares are classified either as liabilities or Members' equity. Where shares are redeemable at the option of the Member, either on demand or on withdrawal from membership, the shares are classified as liabilities and are measured at amortized cost. Shares that are redeemable at the discretion of FirstOntario's Board of Directors are classified as equity.

3. Significant Accounting Policies (continued):

(k) Dividends:

Dividends on shares classified as liabilities are reported as interest expense. Dividends on shares classified as equity are charged to retained earnings on the date at which distributions are declared payable by the Board of Directors. All dividends on shares are deductible for income tax purposes.

(l) Impairment of non-financial assets:

Non-financial assets other than deferred tax assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable at each reporting date. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses are recognized in net income.

Non-financial assets that have incurred impairment losses in prior years are reviewed for possible reversal of the impairment loss at each reporting date. A reversal of impairment is limited to the original impaired amount.

(m) Revenue recognition:

Loan interest and revenue is recognized in the Consolidated Statement of Income using the effective interest method. Refer to Note 3(b) for a detailed explanation of the effective interest rate method. Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the effective interest rate.

FirstOntario enters into contracts with Members to provide banking services and is under agency contracts to provide access to credit card and insurance products, and investment advisory services to its Members. These contracts outline the terms and conditions for the services provided and a corresponding schedule that details the fee and commission for each performance obligation and when it is to be received. These revenues are recognized as the related services are performed.

(n) Foreign exchange:

The Consolidated Financial Statements are presented in Canadian dollars, which is FirstOntario's functional currency. Monetary assets and liabilities denominated in foreign currencies, primarily US dollars, are translated into Canadian dollars at exchange rates prevailing at the year-end. Fixed assets and intangible assets are carried at the historical Canadian dollar cost. Income and expenses are translated at the exchange rates in effect on the date of the transactions. Exchange gains and losses arising on the translation of monetary assets and liabilities are included in other income.

3. Significant Accounting Policies (continued):

(o) Provisions:

A provision is recognized if, as a result of a past event, FirstOntario has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(p) Employee retirement benefits:

FirstOntario provides retirement benefits to certain employees. These benefits include registered pension plans, medical benefits, dental care and life insurance.

A defined contribution plan is a pension plan under which FirstOntario pays contributions to a separate entity. FirstOntario has no legal or constructive obligation to pay further contributions after its payment of a contribution in accordance with the pension plan. Defined contribution pension plan contributions are expensed in the period during which services are rendered by employees.

A defined benefit plan is a pension plan that defines the amount of the pension benefit that an employee will receive upon retirement, usually dependent on one or more factors, such as age, years of service and compensation. Employment retirement benefits include both pension and other post-retirement benefits.

FirstOntario's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for FirstOntario, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. FirstOntario determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in salaries and benefits in net income.

3. Significant Accounting Policies (continued):

(p) Employee retirement benefits (continued):

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in net income. FirstOntario recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(q) Income taxes:

FirstOntario follows the asset and liability method of accounting for income taxes, whereby FirstOntario recognizes both the current and future income tax consequences of all transactions that have been recorded in the financial statements.

Current income taxes are the expected taxes refundable or payable on the taxable income for the year using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to taxes payable in respect of previous years. Current tax liabilities are classified as measured at amortized cost under IFRS 9.

Deferred income taxes provide for temporary differences between the carrying values of assets and liabilities and the amounts used for taxation purposes. The amount of deferred income tax provided is based on the expected timing of realization or settlement of the carrying value of assets and liabilities, using tax rates enacted or substantively enacted at the reporting period date. A deferred income tax asset is recognized only to the extent that it is probable that future taxable income will be available to utilize taxable benefits associated with the temporary difference in carrying value.

Deferred tax assets and liabilities are included either in other assets or accounts payable and accrued liabilities, as applicable, in the Consolidated Statement of Financial Position.

4. New Standards and Interpretations not yet effective:

<u>Future changes in accounting policy:</u>

(a) On May 18, 2017 the IASB issued *IFRS 17 Insurance Contracts*.

The new standard is effective for annual periods beginning on or after January 1, 2021. IFRS 17 will replace IFRS 4 Insurance Contracts.

This standard introduces consistent accounting for all insurance contracts. The standard requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires a company to recognize profits as it delivers insurance services, rather than when it receives premiums.

FirstOntario intends to adopt IFRS 17 in its financial statements for the annual period beginning on January 1, 2021. The extent of the impact of adoption of the standard has not yet been determined.

5. Loans Receivable from Members:

Loans receivable from Members, which are classified as amortized cost or FVTPL, are as follows:

(In thousands of dollars)	**2019**	2018
Residential mortgage loans	**$ 3,081,658**	$ 2,723,704
Allowance for expected credit losses	**(1,033)**	(886)
	3,080,625	2,722,818
Personal loans	**105,275**	120,514
Allowance for expected credit losses	**(1,685)**	(1,645)
	103,590	118,869
Commercial loans	**799,384**	753,140
Allowance for expected credit losses	**(5,718)**	(5,575)
	793,666	747,565
	$ 3,977,881	$ 3,589,252

FirstOntario classifies residential mortgage loans that do not meet the business model assessment of held to collect as FVTPL. At December 31, 2019, FirstOntario has classified $nil (2018 - $nil) residential mortgage loans as measured at FVTPL.

Certain residential mortgage loans are securitized and have been legally transferred to other entities for funding purposes. These loans are administered by FirstOntario and recognized on the Consolidated Statement of Financial Position to the extent of FirstOntario's continuing involvement.

A summary of the carrying values of residential mortgage loans is as follows:

(In thousands of dollars)	**2019**	2018
Loans held by FirstOntario	**$ 2,567,267**	$ 2,201,754
Loans held by Securitization Trusts	**514,391**	521,950
	$ 3,081,658	$ 2,723,704

Additional details are provided in Note 8 related to FirstOntario's securitization activity.

Interest income for the year is as follows:

(In thousands of dollars)	**2019**	2018
Residential mortgage loans	**$ 99,732**	$ 83,518
Personal loans	**6,477**	6,653
Commercial loans	**38,448**	39,603
	$ 144,657	$ 129,774

5. Loans Receivable from Members (continued):

Total fees paid to third parties associated with lending activities capitalized in other assets were $9,045,000 as at December 31, 2019 (2018 - $11,006,000). Charges amortized into interest expense in respect of these fees were $5,945,000 during the year ended December 31, 2019 (2018 - $7,031,000).

The following summarizes FirstOntario's loan portfolio by the contractual repricing or maturity date, whichever is earlier:

(In thousands of dollars)	**2019** Principal Balance	**2019** Average Yield	2018 Principal Balance	2018 Average Yield
Floating	**$ 589,821**	**5.12%**	$ 654,818	5.31%
Within 1 year	**839,579**	**4.39%**	898,356	4.35%
Over 1 year	**2,556,917**	**3.61%**	2,044,184	3.59%
	3,986,317	**4.00%**	3,597,358	4.09%
Allowance for expected credit losses (note 6)	**(8,436)**		(8,106)	
	$ 3,977,881		$ 3,589,252	

6. Allowance for Impaired Loans:

FirstOntario applies the three stage approach to measure the allowance for credit losses, using the ECL approach as required under IFRS 9. The allowance is calculated based on the stage in which the financial asset falls at the reporting date. The financial assets migrate through the three stages based on the change in their risk of default since initial recognition.

ECL calculations are outputs of an ECL model with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The ECL impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of the financial instrument, depending on the credit deterioration since its inception. The model reflects an unbiased, probability-weighted credit loss which considers multiple scenarios based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Forward looking information is explicitly incorporated into the estimation of ECL.

6. Allowance for Impaired Loans (continued):

The three stages of the allowance for credit losses are:

Stage 1 – Where there has not been a significant increase in credit risk ("SICR") since initial recognition of a financial asset, an amount equal to 12 months ECL is recorded. The ECL is computed using a probability of default ("PD") occurring over the next 12 months.

Stage 2 – When a financial asset experiences a SICR subsequent to initial recognition but is not considered to be in default, it is included in Stage 2. This requires the computation of ECL based on the PD over the remaining estimated life of the financial asset.

Stage 3 – Financial assets that are considered to be in default are included in this stage. Similar to Stage 2, the allowance captures lifetime ECL.

The probability of default, exposure at default ("EAD"), and loss given default ("LGD") are inputs used to estimate the ECL, and are modelled based on macroeconomic factors that are closely related with credit losses in the relevant portfolios, and are probability weighted using three scenarios. The measurement of ECL is based primarily on the product of the three variables:

- PD is an estimate of the likelihood of default over a given time horizon
- EAD is the expected exposure (balance of the loan plus accrued interest) in the event of default at a future default date
- LGD is an estimate of the loss arising where a default occurs at a given time and is based on the difference between the contractual cash flows due and those that FirstOntario would expect to receive, including from the realization of any collateral.

Assessment of significant increase in credit risk

The measurement of ECL for each stage and the assessment of SICR considers information about past events and current conditions as well as supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information ("FLI") requires significant judgement. FirstOntario relies on a broad range of FLI's, such as expected real GDP, unemployment rates, house price indices, interest rates and debt ratios. The inputs used in the model for calculating ECL may not always capture all characteristics of the market at the reporting date. To capture portfolio characteristics and risks, adjustments are made using management judgement.

When determining whether the risk of default on a financial asset has increased significantly since initial recognition, FirstOntario considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on FirstOntario's historical experience and expert credit assessment, delinquency and monitoring, and macroeconomic outlook including FLI. There is a rebuttable presumption that the risk of default has increased since initial recognition when contractual payments are more than 30 days overdue.

6. Allowance for Impaired Loans (continued):

A summary of the loan allowance for expected credit losses is as follows:

(In thousands of dollars)	12-month ECL (Stage 1)	Lifetime ECL- Non-credit Impaired (Stage 2)	Lifetime ECL- Credit Impaired (Stage 3)	2019 Total
Balance at beginning of year	**$ 3,024**	**$ 940**	**$ 4,142**	**$ 8,106**
Transfer to (from):				
Stage 1	**355**	**(326)**	**(29)**	**-**
Stage 2	**(112)**	**118**	**(6)**	**-**
Stage 3	**(79)**	**(16)**	**95**	**-**
Re-measurement	**(100)**	**817**	**3,564**	**4,281**
Originations	**1,594**	**-**	**-**	**1,594**
Loans derecognized	**(1,261)**	**(290)**	**(1,027)**	**(2,578)**
Loans written-off	**-**	**-**	**(3,220)**	**(3,220)**
Recoveries	**-**	**-**	**253**	**253**
Balance at end of year	**$ 3,421**	**$ 1,243**	**$ 3,772**	**$ 8,436**

Provision for impaired loans amounting to $3,297,000 (2018 - $2,445,000) is comprised of ECL related to re-measurement changes of $4,281,000 (2018 - $3,384,000) and loan originations of $1,594,000 (2018 - $1,163,000) less loans derecognized of $2,578,000 (2018 - $2,102,000).

(In thousands of dollars)	12-month ECL (Stage 1)	Lifetime ECL- Non-credit Impaired (Stage 2)	Lifetime ECL- Credit Impaired (Stage 3)	2018 Total
Balance at beginning of year	$ 2,604	$ 2,327	$ 2,081	$ 7,012
Transfer to (from):				
Stage 1	1,563	(1,491)	(72)	-
Stage 2	(74)	96	(22)	-
Stage 3	(24)	(29)	53	-
Re-measurement	(1,288)	559	4,113	3,384
Originations	1,060	-	103	1,163
Loans derecognized	(817)	(522)	(763)	(2,102)
Loans written-off	-	-	(1,518)	(1,518)
Recoveries	-	-	167	167
Balance at end of year	$ 3,024	$ 940	$ 4,142	$ 8,106

(In thousands of dollars)	Residential Mortgage Loans	Personal Loans	Commercial Loans	2019 Total
Balance at beginning of year	**$ 886**	**$ 1,645**	**$ 5,575**	**$ 8,106**
Loans written off	**-**	**(470)**	**(2,750)**	**(3,220)**
Recoveries	**-**	**149**	**104**	**253**
Net provision for loan allowance	**147**	**361**	**2,789**	**3,297**
Balance at end of year	**$ 1,033**	**$ 1,685**	**$ 5,718**	**$ 8,436**

6. Allowance for Impaired Loans (continued):

				2018
(In thousands of dollars)	Residential Mortgage Loans	Personal Loans	Commercial Loans	Total
Balance at beginning of year	$ 756	$ 1,899	$ 4,357	$ 7,012
Loans written off	-	(685)	(833)	(1,518)
Recoveries	-	167	-	167
Net provision for loan allowance	130	264	2,051	2,445
Balance at end of year	$ 886	$ 1,645	$ 5,575	$ 8,106

A summary of impaired loans is as follows:

				2019	2018
(In thousands of dollars)	**Residential Mortgage Loans**	**Personal Loans**	**Commercial Loans**	**Total**	Total
Gross amount of loans identified as impaired	**$ 22,569**	**$ 957**	**$ 24,500**	**$ 48,026**	$ 42,538
Related security less expected costs	**22,149**	**425**	**21,680**	**44,254**	38,396
ECL	**$ 420**	**$ 532**	**$ 2,820**	**$ 3,772**	$ 4,142

A summary of loans past due but not impaired is as follows:

				2019	2018
(In thousands of dollars)	**<30 days**	**30-59 days**	**60-89 days**	**Total**	Total
Residential mortgage loans	**$ 59,216**	**$ 10,193**	**$ 3,266**	**$ 72,675**	$ 87,057
Personal loans	**2,696**	**725**	**212**	**3,633**	3,675
Commercial loans	**1,605**	**-**	**-**	**1,605**	22,400
Balance at end of year	**$ 63,517**	**$ 10,918**	**$ 3,478**	**$ 77,913**	$ 113,132

The carrying amount of loans that were renegotiated during the year that otherwise would have been listed as past due greater than 90 days were $nil (2018 - $nil).

FirstOntario's commercial loan portfolio contains Member concentration risk, whereby a large amount of the loans are connected to certain individuals. Collectively, the largest five commercial Members by loan dollar value are associated with approximately 19% (2018 - 17%) of the commercial loan portfolio.

6. Allowance for Impaired Loans (continued):

FirstOntario's commercial loan portfolio consists of the following industry sectors:

	2019	2018
Hospitality	**23%**	24%
Retail & Commercial Buildings	**59%**	53%
Other	**18%**	23%

Collateral

There are documented policies and procedures in place for the valuation of financial and non-financial collateral. The fair value of non-financial collateral is updated if there has been a significant change in the terms and conditions of the loan and (or) the loan is considered impaired. For impaired loans, an assessment of the collateral is taken into consideration when estimating the expected future cash flows and net realizable amount of the loan.

The amount and type of collateral and other credit enhancements required depend upon FirstOntario's assessment of counterparty credit quality and repayment capacity. FirstOntario complies with industry standards for collateral valuation, frequency of recalculation of the collateral requirements, documentation, registration and perfection procedures, and monitoring. Non-financial assets accepted by FirstOntario as collateral include vehicles, residential real estate, real estate under development, commercial real estate and certain business assets (accounts receivable, inventory, and fixed assets). Financial collateral includes cash and negotiable securities issued by governments and investment grade issuers. Guarantees are also accepted to reduce credit risk.

At December 31, 2019, the net carrying amount of credit-impaired loans amounted to $44,254,000 (2018 - $38,386,000) and the value of identifiable collateral held against those loans amounted to $46,568,000 (2018 - $41,622,000). For each loan, the value of disclosed collateral is capped to the nominal amount of the loan that it is held against.

6. Allowance for Impaired Loans (continued):

The following table illustrates the credit quality of loans:

(In thousands of dollars)	12-month ECL (Stage 1)	Lifetime ECL- Non-credit Impaired (Stage 2)	Lifetime ECL- Credit Impaired (Stage 3)	2019	2018
Retail Mortgages and Personal Loans					
Unscored	**$ 24,015**	**$ 280**	**$ 234**	**$ 24,529**	$ 20,007
A+	**763,639**	**591**	**523**	**764,753**	750,211
A	**1,702,488**	**1,765**	**9,669**	**1,713,922**	1,551,192
B	**251,898**	**1,305**	**2,452**	**255,655**	181,585
C	**226,246**	**22,780**	**2,229**	**251,255**	208,520
D	**67,953**	**36,532**	**3,175**	**107,660**	79,423
E	**21,243**	**42,672**	**5,244**	**69,159**	53,280
Commercial Loans					
Undoubted	**239**	**-**	**-**	**239**	-
Superior	**26,140**	**-**	**-**	**26,140**	6,688
Satisfactory	**710,554**	**37,951**	**-**	**748,505**	727,745
Watch list	**-**	**-**	**24,500**	**24,500**	18,707
Gross loan balance	**3,794,415**	**143,876**	**48,026**	**3,986,317**	3,597,358
Allowance for impairment loans	**(3,421)**	**(1,243)**	**(3,772)**	**(8,436)**	(8,106)
Carrying amount	**$ 3,790,994**	**$ 142,633**	**$ 44,254**	**$3,977,881**	$3,589,252

Refer to Note 17 – Financial Risk Management for a detailed explanation of the credit risk rating process of both portfolios.

7. Cash and Cash Equivalents:

(In thousands of dollars)	2019	2018
Cash on hand	**$ 10,861**	$ 11,329
Cash at Central 1	**13,620**	50,503
Other cash and cash equivalents	**1,231**	485
Total cash and cash equivalents	**$ 25,712**	$ 62,317

8. Loan Securitizations:

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 (“SPE’s”). FirstOntario securitizes mortgage backed securities through programs sponsored by the Canada Mortgage and Housing Corporation and other third party programs.

8. Loan Securitizations (continued):

Certain transactions allow FirstOntario to transfer its contractual right to receive cash flows from the financial assets, or retain the right but assume an obligation to pass on the cash flows from the asset, and transfer substantially all the risks and rewards of ownership. The risks include credit, interest rate, prepayment and other price risks. Under these conditions, the residential or commercial mortgages included in the mortgage backed security meet the qualifications required to be derecognized under IFRS.

Residential and commercial mortgages that have been derecognized are those that meet the qualifications required to be derecognized under IFRS.

The following table summarizes FirstOntario's securitization activity during the years ended December 31, 2019 and December 31, 2018:

	2019		2018	
(In thousands of dollars)	**Residential Mortgages**	**Commercial Mortgages**	Residential Mortgages	Commercial Mortgages
Amount securitized/sold	**$ 170,759**	**$ 536,427**	$ 182,874	$ 347,929
Net cash proceeds received	**167,858**	**532,785**	181,968	338,771
Outstanding balances of securitized loans	**1,221,306**	**2,152,193**	1,356,190	1,819,164

The following table summarizes the balances for securitized loans that are not recorded on the Consolidated Statement of Financial Position:

	2019		2018	
(In thousands of dollars)	**Residential Mortgages**	**Commercial Mortgages**	Residential Mortgages	Commercial Mortgages
Retained rights and receivables	**$ 5,131**	**$ 34,324**	$ 12,526	$ 25,154
Outstanding balances of off-balance sheet securitized loans	**706,915**	**2,152,193**	834,240	1,819,164

Retained rights are reported as investments on the Consolidated Statement of Financial Position (Note 9). The following table summarizes the weighted average key assumptions at the date of off-balance sheet securitization for retained rights related to all residential and commercial mortgages sold and derecognized under IFRS 9.

	2019	2018
Average life	**4.6 years**	4.9 years
Prepayment rate[1]	**1.94%**	0.15%
Discount rate	**2.09%**	2.06%
Expected credit losses	**0.00%**	0.00%

[1]Lower interest rates in 2019 were a contributing factor towards the increase in the pre-payment rate assumption in 2019.

9. Investments:

Investments are as follows:

(In thousands of dollars)	2019	2018
Equity securities measured at FVOCI:		
Shares – Central 1 (d)	**$ 19,610**	$ 18,308
Preferred shares	**2,009**	2,009
Equity securities measured at FVTPL:		
Managed funds (b)	**94,939**	76,830
Investments – other	**6,260**	5,750
CUCO Co-operative Association (c)	**-**	87
Debt securities measured at FVTPL:		
Retained rights – loan securitizations	**39,455**	37,680
Debt securities measured at amortized cost:		
Liquidity reserve deposits	**275,341**	256,605
Loans (f)	**18,028**	10,779
Investments measured under IFRS 9	**455,642**	408,048
Real estate joint ventures (e)	**84,262**	87,465
Other investments	**218**	340
	$ 540,122	$ 495,853

The following summarizes FirstOntario's investments by the contractual repricing or maturity date, whichever is earlier:

(In thousands of dollars)	**2019 Carrying Amount**	**2019 Average Yield**	2018 Carrying Amount	2018 Average Yield
Within 1 year	**$ 66,889**	**1.36%**	$ 50,332	1.80%
Over 1 year	**224,665**	**2.55%**	215,314	2.15%
	291,554	**2.28%**	265,646	2.08%
Non-rate sensitive	**246,753**		228,469	
Accrued interest	**1,815**		1,738	
	$ 540,122		$ 495,853	

(a) Equity investments designated as at FVOCI:

(In thousands of dollars)	2019	2018
Interest and investment income	**$ 569**	$ 660

9. Investments (continued):

(b) Managed funds:

FirstOntario holds certain investments within actively managed investment funds issued by external investment providers. Given the investments are actively managed by investment advisors, these investments are held for trading and are measured at FVTPL.

(In thousands of dollars)		**2019**		2018
Fair value at the beginning of year	**$**	**76,830**	$	25,151
Additions to portfolio		**25,732**		48,284
Disposals from portfolio		**(9,871)**		(3,188)
Distributions		**(4,075)**		(596)
Change in fair value		**8,169**		5,031
Change from foreign exchange		**(1,846)**		2,148
Fair value at the end of year	**$**	**94,939**	$	76,830

(c) CUCO Cooperative Association:

During 2019, CUCO Cooperative Association ("CUCO Co-op") disbursed all remaining Class B Investment Shares upon wind-up. FirstOntario previously held 5.8% of Class B Investment Shares carried at $87,000 and received $84,000 upon final disbursement. During the 2018 fiscal period, there was no change to the fair value of the shares.

(d) Central 1 shares:

As a member of Central 1, FirstOntario is required to maintain an investment in Central 1 shares based on FirstOntario's asset size relative to other Class A members. Central 1 rebalances their shares annually. During 2019, as part of this share rebalancing, FirstOntario was required to purchase 368 (2018 - nil) Class A shares and 1,301,867 (2018 - 432,256) Class F shares. In 2018 Central 1 returned 114,116 Class A shares and 256,011 Class F shares. FirstOntario received $475,000 (2018 - $567,000) in dividends in 2019.

9. Investments (continued):

(d) Central 1 shares (continued):

A share restructuring during 2018 resulted in the issuance of 12,639,856 Central 1 Class F shares to FirstOntario, and the redemption of 12,347,247 Central 1 Class A shares and 13,211 Central 1 Class E shares.

The following table summarizes the investment in Central 1 Shares as at December 31, 2019:

(In thousands of dollars)	**2019**	2018
1,518,551 Class A Shares (2018 - 1,518,183)	**$ 1,519**	$ 1,518
39,736 Class E Shares (2018 - 39,736)	**3,974**	3,974
14,117,968 Class F Shares (2018 - 12,816,101)	**14,117**	12,816
	$ 19,610	$ 18,308

FirstOntario has designated the Central 1 shares as measured at FVOCI as FirstOntario intends to hold these shares for the long term.

Central 1 requires that member credit unions maintain with them liquidity and secondary liquidity reserve deposits equal to 6% of the member credit union's assets. These reserve deposits are determined on a monthly basis and are classified as measured at amortized cost.

(e) Real estate joint ventures:

FirstOntario periodically enters into agreements with third parties to jointly control investment properties. These joint ventures are initially measured at cost and subsequently at fair value with any change therein recognized in profit or loss. Costs include initial acquisition costs and other costs incurred prior to the real estate being ready for its intended use.

(In thousands of dollars)	**2019**	2018
Balance at the beginning of year	**$ 87,465**	$ 74,631
Acquisitions	**23,403**	7,628
Earnings from joint ventures	**1,649**	1,758
Distributions	**(39,629)**	(1,815)
Change in fair value	**11,374**	5,263
Balance at the end of year	**$ 84,262**	$ 87,465

9. Investments (continued):

(e) Real estate joint ventures (continued):

FirstOntario's portion of the revenue and expenses from participation in the ventures has been included in other income as follows:

(In thousands of dollars)		**2019**		2018
Revenues	**$**	**8,076**	$	7,169
Expenses		**6,427**		5,411
Earnings from joint ventures	**$**	**1,649**	$	1,758

Revenue of the joint ventures includes interest received by FirstOntario from a promissory note issued to one of its partners in the amount of $32,000 (2018 - $nil). The expenses of the joint ventures included amortization in the amount of $1,585,000 (2018 - $1,494,000). Operating cash flow generated by the ventures was $1,252,000 (2018 - $1,787,000). During the year ended December 31, 2019, FirstOntario received $39,629,000 (2018 - $1,815,000) in total distributions from the ventures. Of the 2019 distributions, $38,377,000 related to the refinancing of two joint ventures, whereby FirstOntario received a return of capital and the capital was replaced with debt financing.

Investments properties held under the ventures is as follows:

(In thousands of dollars)		**2019**		2018
Real estate held at fair value for investment purposes	**$**	**70,548**	$	70,037
Construction in progress		**13,714**		17,428
Balance at the end of year	**$**	**84,262**	$	87,465

Fair value was determined by experienced registered independent appraisers having an appropriate recognized professional qualification. The fair value measurement for all of the joint ventures has been categorized as a level 3 fair value based on the inputs of the valuation technique used (see Note 18).

Joint venture values were based on the appraiser's opinion of value having undertaken the following approaches:

- The Income Approach method where the investment is expected to be acquired by an investor basing criteria on an expected income flow.
- The Direct Comparison Approach method which determines the market range of unit prices demonstrated by the sales or listings of comparable properties.

9. Investments (continued):

(e) Real estate joint ventures (continued):

Below is a summary of the significant unobservable inputs used in the modeling process:

	2019	2018
Capitalization rate	**5.5% - 7.3%**	5.7 - 7.5%
Risk-adjusted discount rate	**8.0%**	8.3%
Occupancy rate	**95% - 99%**	89% - 98%
Vacancy periods (average months after end of each lease)	**2 – 6 months**	2 - 6 months

Other significant unobservable inputs are the expected market rental growth rate and the rent-free periods.

The estimated fair value of the joint ventures would increase (decrease) as a result of the following changes in the significant unobservable inputs:

	Change
Capitalization rate	lower (higher)
Risk-adjustment discount rate	lower (higher)
Occupancy rate	higher (lower)
Void periods	shorter (longer)
Expected market rental growth	higher (lower)
Rent-free periods	shorter (longer)

(f) Loans:

FirstOntario invests in a portfolio of short-term, low value personal loans, originated by a third party as follows:

(In thousands of dollars)	**2019**	2018
Principal loan balance	**$ 18,458**	$ 11,050
Accrued interest	**96**	75
Allowance for expected credit losses	**(526)**	(346)
Balance at the end of year	**$ 18,028**	$ 10,779

10. Fixed Assets:

(In thousands of dollars)	Cost	Accumulated amortization	2019 Net book value
Land	**$ 1,321**	**$ -**	**$ 1,321**
Parking lots/Site improvements	**348**	**271**	**77**
Buildings	**25,959**	**5,998**	**19,961**
Equipment	**23,929**	**15,557**	**8,372**
Leasehold improvements	**22,380**	**12,132**	**10,248**
Tangible assets	**73,937**	**33,958**	**39,979**
Intangible assets (software)	**32,733**	**15,012**	**17,721**
Total fixed assets	**$ 106,670**	**$ 48,970**	**$ 57,700**

(In thousands of dollars)	Cost	Accumulated amortization	2018 Net book value
Land	$ 1,321	$ -	$ 1,321
Parking lots/Site improvements	348	258	90
Buildings	6,542	3,490	3,052
Equipment	19,581	13,249	6,332
Leasehold improvements	21,396	10,339	11,057
Tangible assets	49,188	27,336	21,852
Intangible assets (software)	30,342	13,085	17,257
Total fixed assets	$ 79,530	$ 40,421	$ 39,109

Amortization in respect of the above assets for the year ended December 31, 2019 amounts to $8,564,000 (2018 - $5,277,000).

10. Fixed Assets (continued):

Reconciliations of the net book value for each class of fixed asset are summarized below:

(In thousands of dollars)	2019	2018
Land		
Net book value at the beginning and end of the year	$ 1,321	$ 1,321
Parking lots/Site improvements		
Net book value at the beginning of the year	**90**	103
Amortization	**(13)**	(13)
Net book value at the end of the year	**77**	90
Buildings		
Net book value at the beginning of the year	**3,052**	3,087
IFRS 16 adjustment (note 11)	**19,248**	-
Additions	**169**	191
Amortization	**(2,508)**	(226)
Net book value at the end of the year	**19,961**	3,052
Equipment		
Net book value at the beginning of the year	**6,332**	6,302
IFRS 16 adjustment (note 11)	**988**	-
Additions	**3,386**	1,702
Disposals (note 11)	**(26)**	-
Amortization	**(2,308)**	(1,672)
Net book value at the end of the year	**8,372**	6,332
Leasehold improvements		
Net book value at the beginning of the year	**11,057**	11,395
Additions	**984**	1,331
Disposals	**-**	(36)
Amortization	**(1,793)**	(1,633)
Net book value at the end of the year	**10,248**	11,057
Intangible assets (software)		
Net book value at the beginning of the year	**17,257**	15,993
Additions	**2,391**	2,997
Amortization	**(1,927)**	(1,733)
Net book value at the end of the year	**17,721**	17,257
Total net book value	**$ 57,700**	$ 39,109

11. Leases:

(a) Leases:

FirstOntario leases space for most of its branches and some computer equipment. The leases have varying terms, escalation clauses and renewal rights.

When measuring lease liabilities for leases that were previously classified as operating leases, FirstOntario discounted lease payments using its average incremental borrowing rate at January 1, 2019. FirstOntario estimated its incremental borrowing rates for portfolios of leases with similar characteristics, such as similar risk profiles, same or similar types of security, and similar lease terms.

Information about leases for which FirstOntario is a lessee is presented below.

(i) Right-of-use assets:

Right-of-use assets relate to leased branch and office premises and computer equipment that are presented within fixed assets (see Note 10).

(In thousands of dollars)		**2019**
Balance on transition to IFRS 16 (note 23)	**$**	**20,236**
Additions		**1,352**
Disposals (note 10)		**(26)**
Depreciation		**(2,720)**
Balance at end of year	**$**	**18,842**

(ii) Lease liabilities:

(In thousands of dollars)		**2019**
Balance on transition to IFRS 16 (note 23)	**$**	**20,216**
Additions		**1,359**
Interest on lease liabilities		**581**
Repayments		**(3,007)**
Balance at end of year	**$**	**19,149**

(iii) Maturity analysis for leased liabilities is detailed below. In 2019, consistent with the change in accounting policy detailed in Note 23, FirstOntario has included optional lease renewal periods where FirstOntario has assessed the likelihood of renewal as "reasonably certain".

(In thousands of dollars)		**2019**
Within 1 year (note 23)	**$**	**2,982**
1 to 5 years		**10,993**
Over 5 years		**7,708**
Total undiscounted lease liabilities	**$**	**21,683**

11. Leases (continued):

(iv) Total cash outflows for leases are presented below. Non-lease payments represents variable payments for FirstOntario's branches and payments relating to warranties on FirstOntario's equipment.

(In thousands of dollars)		2019
Payments on lease liabilities	$	3,007
Payments on low-value leases		201
Payments on short-term leases		196
Non-lease payments		1,193
Total cash outflows	$	4,597

12. Members' Deposits:

Members' deposits, which are classified as amortized cost, are as follows:

(In thousands of dollars)		2019		2018
Chequing	$	393,452	$	385,850
Savings		724,519		656,698
Term deposits		1,777,457		1,575,049
Registered plans		720,838		671,641
	$	3,616,266	$	3,289,238

Included in registered plans and term deposits are $1,955,000 in Equity-Linked Deposits at December 31, 2019 (2018 - $3,217,000). See Note 16 for the related derivatives used to hedge exposure to equity market risk.

Concentra Financial Services Association acts as the trustee for the majority of FirstOntario's tax deferred savings plans (registered retirement savings plans and registered retirement income funds). FirstOntario accepts deposits on behalf of the trustee and retains the funds deposited.

Interest expense for the year is as follows:

(In thousands of dollars)		2019		2018
Savings	$	8,640	$	7,861
Term deposits		46,558		30,581
Registered plans		15,329		12,496
	$	70,527	$	50,938

12. Members' Deposits (continued):

The following summarizes FirstOntario's Members' deposits by the contractual repricing or maturity date, whichever is earlier:

(In thousands of dollars)	**Principal Balance**	**2019 Average Yield**	Principal Balance	2018 Average Yield
Floating	**$ 795,263**	**1.39%**	$ 732,020	1.31%
Within 1 year	**1,394,641**	**2.53%**	1,286,038	2.45%
Over 1 year	**929,152**	**2.72%**	781,530	2.82%
	3,119,056	**2.29%**	2,799,588	2.26%
Non-rate sensitive	**497,210**		489,650	
	$ 3,616,266		$ 3,289,238	

13. Membership and Investment Shares:

Authorized Share Capital

FirstOntario has authorized an unlimited number of membership shares. Such shares are issued for $5 each and Members under the age of 21 must hold one membership share while those 21 and over are required to hold at least five shares and increase their holdings of membership shares to 30 shares over a 25 year period. Membership shares are redeemable, on withdrawal from membership, at the amount paid thereon provided FirstOntario is meeting the "capital adequacy" requirements (see Note 14) and they rank junior to Class A and Class B special shares for priority in the payment of dividends.

An unlimited number of Class A and Class B special shares. Such shares are generally non-voting and non-participating with non-cumulative dividend entitlements. In respect of dividends, both classes rank senior to the membership shares and the Class B special shares rank ahead of the Class A special shares.

The Board of Directors has authorized a Series 1, Series 2, Series 2013, Series 2010 and Series 2015 for Class B special shares ("investment shares"). The investment shares have an issue price of $1 each and are entitled to receive dividends if, as and when declared by the Board of Directors. Series 1, Series 2 and Series 2013 investment shares are redeemable at the holder's request. Series 2010 investment shares are redeemable at the sole and absolute discretion of the Board of Directors. Series 2015 investment shares are redeemable at the sole and absolute discretion of the Board of Directors starting in 2020. In any year, redemptions are restricted to 10% of the respective series of the outstanding investment shares.

13. Membership and Investment Share (continued):

Issued and Outstanding

Membership shares and Series 1, 2 and 2013 investment shares are classified as liabilities and are measured at amortized cost. Dividends are recorded using the effective interest rate method. Series 2010 and 2015 investment shares are classified as equity as these shares are redeemable at the sole and absolute discretion of the Board of Directors.

(In thousands of dollars)		2019		2018
Membership shares				
1,741,464 (2018 - 1,842,545) membership shares	**$**	**8,707**	$	9,213
Investment shares				
4,976,560 (2018 - 5,214,168)				
Class B, Series 1, Special Shares		**4,977**		5,214
6,109,352 (2018 - 6,263,230)				
Class B, Series 2, Special Shares		**6,109**		6,263
962,545 (2018 - 948,056)				
Class B, Series 2013, Special Shares		**963**		948
Investment shares classified as liabilities		**12,049**		12,425
46,808,363 (2018 - 45,121,199)				
Class B, Series 2010, Special Shares		**46,562**		44,875
63,952,161 (2018 - 62,312,494)				
Class B, Series 2015, Special Shares		**63,699**		62,059
Investment shares classified as equity		**110,261**		106,934
Total investment shares	**$**	**122,310**	$	119,359

Dividends

Dividends earned by membership and investment shares classified as liabilities and expensed on the Consolidated Statement of Income were as follows:

(In thousands of dollars)		2019		2018
Membership shares	**$**	**606**	$	650
Series 1, 2 and 2013 investment shares		**529**		500
Dividends on membership and investment shares	**$**	**1,135**	$	1,150
Dividends on Series 2010 and 2015 shares (classified as equity)	**$**	**4,340**	$	4,217

13. Membership and Investment Share (continued):

On March 26, 2019, the Board of Directors approved the issue of 502,342 Series 1, 2 and 2013 investment shares, 1,821,488 Series 2010 investment shares and 2,518,578 Series 2015 investment shares in payment of a dividend for the 12 months from January 1, 2018 to December 31, 2018.

The tables that follow present a reconciliation of the change in shares during the year:

	2019	2018
Membership Shares		
Opening balance	**1,842,545**	1,718,220
Shares issued during the year	**240,387**	181,501
Actual shares redeemed	**(74,844)**	(57,176)
Inactive member shares cleanup[1]	**(266,624)**	-
Membership shares	**1,741,464**	1,842,545
Class B, Series 1, Special Shares		
Opening balance	**5,214,168**	5,247,873
Shares issued during the year	**210,970**	206,464
Shares redeemed	**(448,578)**	(240,169)
Class B, Series 1, Special Shares	**4,976,560**	5,214,168
Class B, Series 2, Special Shares		
Opening balance	**6,263,230**	6,479,531
Shares issued during the year	**253,273**	260,924
Shares redeemed	**(407,151)**	(477,225)
Class B, Series 2, Special Shares	**6,109,352**	6,263,230
Class B, Series 2013, Special Shares		
Opening balance	**948,056**	940,422
Shares issued during the year	**38,099**	37,635
Shares redeemed	**(23,610)**	(30,001)
Class B, Series 2013, Special Shares	**962,545**	948,056
Class B, Series 2010, Special Shares		
Opening balance	**45,121,199**	44,067,140
Shares issued during the year	**1,821,488**	1,764,544
Shares redeemed	**(134,324)**	(710,485)
Class B, Series 2010, Special Shares	**46,808,363**	45,121,199
Class B, Series 2015, Special Shares		
Opening balance	**62,312,494**	60,641,128
Shares issued during the year	**2,518,578**	2,452,774
Shares redeemed	**(878,911)**	(781,408)
Class B, Series 2015, Special Shares	**63,952,161**	62,312,494

13. Membership and Investment Share (continued):

[1]During 2019, FirstOntario undertook a membership share cleanup. Those members who had only membership shares, with no loans and deposits and who could not be located, had their membership closed with the shares transferred to unclaimed balances. Members who had duplicate shares had excess membership shares redeemed and returned. In addition, there were members who did not have the required membership shares, those shares were funded by FirstOntario. The 2018 membership total disclosed in Note 1 has been restated.

14. Regulatory Reporting and Disclosure:

(a) Capital management:

FirstOntario maintains policies and procedures relative to capital management so as to ensure that capital levels are sufficient to cover risks inherent in the business.

FirstOntario's objectives when managing capital are:

(i) To ensure that the quantity, quality and composition of capital required reflects the inherent risks of FirstOntario and to support the current and planned operations and portfolio growth.

(ii) To provide a basis for confidence among Members, depositors, creditors and regulatory agencies.

(iii) To ensure that FirstOntario maintains a level of capital that sufficiently protects against unanticipated losses and to comply with the minimum regulatory capital requirements set out in the Act.

Regulatory capital is calculated as a percentage of total assets and of risk-weighted assets. Risk-weighted assets are calculated by applying risk weight percentages, as prescribed by the Act, to various asset categories, operational and interest rate risk criteria. The prescribed risk weights are dependent upon the degree of risk associated with the asset.

FirstOntario manages its Tier 1 and Tier 2 capital in accordance with internal policies and regulatory requirements. Tier 1 capital is the highest quality and consists of retained earnings, contributed surplus, accumulated other comprehensive losses, membership shares and the portion of the value of Class B investment shares that are not redeemable within 12 months. Tier 2 capital is comprised of the value of Class B investment shares ineligible as Tier 1 capital and the eligible portion of the allowance for impaired loans.

14. Regulatory Reporting and Disclosure (continued):

(a) Capital management (continued):

The amount and composition of Tier 1 and Tier 2 capital were as follows:

(In thousands of dollars)	**2019**	2018
Tier 1 Capital		
Retained earnings	**$ 127,514**	$ 116,857
Contributed surplus	**4,865**	4,865
Membership shares	**8,707**	9,213
Class B Investment Shares, Series 1 (90%)	**4,479**	4,693
Class B Investment Shares, Series 2 (90%)	**5,498**	5,637
Class B Investment Shares, Series 2010 (90%)	**41,906**	40,388
Class B Investment Shares, Series 2013 (90%)	**867**	853
Class B Investment Shares, Series 2015 (90%)	**57,329**	62,059
Total Tier 1 Capital	**251,165**	244,515
Tier 2 Capital		
Class B Investment Shares, Series 1 (10%)	**498**	521
Class B Investment Shares, Series 2 (10%)	**611**	626
Class B Investment Shares, Series 2010 (10%)	**4,656**	4,488
Class B Investment Shares, Series 2013 (10%)	**96**	95
Class B Investment Shares, Series 2015 (10%)	**6,370**	-
Accumulated other comprehensive losses – employee benefit adjustments	**(2,633)**	(1,627)
Stage 1 and 2 ECL	**4,664**	3,964
Total Tier 2 Capital	**14,262**	8,067
Total Regulatory Capital	**$ 265,427**	$ 252,582

Under the Regulations of the Act, FirstOntario must maintain minimum levels of regulatory capital. The leverage ratio calculates regulatory capital as a percentage of assets. The risk-weighted capital ratio calculates regulatory capital as a percentage of risk-weighted assets. FirstOntario complied with these requirements as follows:

	Regulatory Capital	Leverage Ratio Minimum	Leverage Ratio Actual	Risk-Weighted Capital Ratio Minimum	Risk-Weighted Capital Ratio Actual
2019	**$ 265,427,000**	**4.00%**	**5.73%**	**8.00%**	**11.71%**
2018	$ 252,559,000	4.00%	5.99%	8.00%	12.37%

14. Regulatory Reporting and Disclosure (continued):

(b) Remuneration of officers and employees:

The Act requires disclosure of the five highest paid officers and employees of FirstOntario where total remuneration exceeds $150,000 during the year. The individuals and their respective remuneration (salary, benefits including any applicable retirement and post-employment benefits) included Kelly McGiffin, Former Chief Executive Officer ($55,000, $3,572,000), James Olson, Former President ($34,000, $409,000), Lloyd Smith, Chief Executive Officer ($475,000, $42,000), Barry Doan, Chief Financial Officer ($400,000, $41,000) and David Schurman, Chief Operating Officer ($400,000, $34,000).

Remuneration is fair and competitive with salaries of similar positions at credit unions of approximately equal asset size used as comparators. FirstOntario actively participates in compensation surveys to ensure alignment with the market and employs third party compensation consultants to provide more independence to the process.

Executive compensation is reviewed and approved by the Board on an annual basis. As part of this review, the Board considers market expectations and projections of changes for comparable positions using, where available, independent, competent and relevant sources.

(c) Related party transactions:

FirstOntario's related parties include:

(i) All members of the Board, Officers and Executives of FirstOntario.

(ii) FirstOntario's subsidiaries (1320828 Ontario Limited, FOIH, FOIB) and joint ventures noted in Note 9.

FirstOntario Insurance Holdings Inc. is a wholly owned subsidiary of FirstOntario. FOIH is a holding company which manages FirstOntario's holdings in FirstOntario Insurance Brokerage Inc. FOIH holds 51% of the ownership interests and voting rights of FOIB. All intercompany transactions and balances have been eliminated.

FOIB is an insurance brokerage which commenced operations during 2018. The remaining 49% of ownership interests and voting rights not held by FOIH are held by non-controlling interests. During the year, a net loss of $49,000 (2018 - net loss of $73,000) was allocated to non-controlling interests, resulting in accumulated non-controlling interests of $122,000 at December 31, 2019. All intercompany transactions and balances have been eliminated.

(iii) Defined benefit plans that are referred to in Note 19. FirstOntario's transactions with the plans include contributions paid into the plans. FirstOntario also pays for the expenses of the employee defined contribution plan. FirstOntario has not entered into other transactions with the defined benefit plans.

14. Regulatory Reporting and Disclosure (continued):

(c) Related party transactions (continued):

The following table outlines remuneration of members of the Board, Officers and Executives:

(In thousands of dollars)		**2019**		2018
Salaries, bonuses, and other short-term employee benefits	**$**	**2,600**	$	3,053
Post-employment benefits		**4,113**		201
Directors' remuneration		**384**		340
Total compensation	**$**	**7,097**	$	3,594

Related party balances as at December 31 are outlined in the following table:

(In thousands of dollars)		**2019**		2018
Loans				
Residential mortgages	**$**	**2,868**	$	2,883
Personal loans		**160**		128
Accrued interest		**1**		1
Deposits and Shares				
Deposits		**2,224**		2,129
Membership shares		**3**		3
Investment shares		**215**		413
Accrued interest		**4**		7

Total interest revenue derived from lending activity relating to key management personnel was $83,000 during the year ended December 31, 2019 (2018 - $90,000). Total interest expense from deposit-taking activity from related parties was $33,000 during the year ended December 31, 2019 (2018 - $25,000). During 2019 and 2018, no loans held by related parties were impaired.

15. Loans Payable and Securitization Liabilities:

The following table details loans payable to Central 1 and other funding partners. Security pledged is set out in Note 11(c). All loans payable are classified as amortized cost.

(In thousands of dollars)		2019		2018
Central 1 Credit Facilities				
Term loan facilities, bearing a variable interest rate of 2.58% (2018 - nil%) due within one year	$	**48,000**	$	-
Caisse centrale Desjardins Credit Facilities				
Term loan facility, bearing a fixed interest rate of 2.98% (2018 - 2.98%), maturity date of 2022		**40,000**		40,000
Term loan facility, bearing a variable interest rate of 2.05% plus 0.50% (2018 - 2.25% plus 0.50%), maturity date of 2020		**50,000**		50,000
Securitization Liabilities				
Mortgage Backed Securities secured by residential mortgage loans, bearing a weighted average fixed interest rate of 2.19% (2018 - 1.69%), expected weighted average maturity date of 2023 (2018 - 2021)		**512,141**		494,802
Mortgage Backed Securities secured by residential mortgage loans, bearing a weighted average variable interest rate of 2.56% (2018 - 2.79%), expected weighted average maturity date of 2021 (2018 - 2019)		**2,199**		23,286
	$	**652,340**	$	608,088

As at December 31, 2019 and December 31, 2018, FirstOntario was in compliance with all financial and non-financial covenants.

Interest expense associated with loans payable during the year consisted of the following:

(In thousands of dollars)		2019		2018
Term loans	$	**3,382**	$	3,032
Securitization of residential mortgages		**10,924**		12,819
	$	**14,306**	$	15,851

16. Derivative Financial Instruments:

(a) Asset liability management:

In the ordinary course of business, FirstOntario purchases derivative instruments from Central 1 and Concentra in order to hedge against exposure to interest rate fluctuations.

Derivative instruments have a fair value that varies based on the particular instrument and changes in interest rates. The purpose of these instruments is to provide a hedge against interest rate fluctuations by improving FirstOntario's matching of its asset and liability position.

(b) Product related:

FirstOntario offers deposit products linked to changes in equity indexes or specific bundles of equities. FirstOntario hedges the underlying risk of these products by entering into equity-linked purchase option contracts. Under the terms of these contracts, FirstOntario will receive payments approximate to the future payments to Members.

(c) Foreign exchange forward contracts:

FirstOntario offers deposit products denominated in US dollars. In order to meet liquidity reserve requirements FirstOntario sells US dollars and purchases US dollar foreign exchange forward contracts to hedge the exchange risk.

The following table summarizes the notional amounts, maturities and fair values of FirstOntario's derivative portfolio as at December 31, 2019 and December 31, 2018:

						2019
	Within	**1 to 5**	**Over**		**Fair Value**	
(In thousands of dollars)	**1 year**	**years**	**5 years**	**Total**	**Assets**	**Liabilities**
Pay fixed interest rate swaps	**$ 55,000**	**$ 31,561**	**$ -**	**$ 86,561**	**$ 368**	**$ 72**
Bond forwards	**20,000**	**-**	**-**	**20,000**	**120**	**-**
Equity-linked options	**831**	**1,056**	**-**	**1,887**	**137**	**118**
Foreign exchange forward contracts	**147,741**	**-**	**-**	**147,741**	**1,023**	**1,021**
2019 Total	**$ 223,572**	**$ 32,617**	**$ -**	**$ 256,189**	**$ 1,648**	**$ 1,211**

						2018
	Within	1 to 5	Over		Fair Value	
(In thousands of dollars)	1 year	years	5 years	Total	Assets	Liabilities
Pay fixed interest rate swaps	$ 80,000	$ 56,622	$ -	$ 136,622	$ 136	$ 125
Bond forwards	57,500	-	-	57,500	-	971
Equity-linked options	1,337	1,832	-	3,169	96	30
Foreign exchange forward contracts	34,691	2,664	-	37,355	211	69
2018 Total	$ 173,528	$ 61,118	$ -	$ 234,646	$ 443	$ 1,195

16. Derivative Financial Instruments (continued):

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of the volume of outstanding transactions, but do not represent credit or market risk exposure. Notional amounts, other than foreign exchange forward contracts, are not exchanged.

FirstOntario is exposed to credit risk which arises from the possibility that a counterparty to a derivative contract could default on their obligation to FirstOntario. However, credit risk associated with derivative contracts is normally a small fraction of the notional principal amount of the contract. Derivative contracts expose FirstOntario to loss only if changes in market rates cause a material unfavourable effect on a counterparty's position, which could then lead to the counterparty defaulting on its payment. FirstOntario only enters into derivative contracts with counterparties that FirstOntario has determined to be creditworthy.

17. Financial Risk Management:

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of FirstOntario's risk management framework. The Board has delegated to the Audit and Risk Committee the responsibility for the development and monitoring of risk management policies. The Audit and Risk Committee reports regularly to the Board on its activities.

All risk management policies and established limits ensure that FirstOntario is in full adherence to the regulatory requirements prescribed in the Act as well as FSRA's standards of Sound Business and Financial Practices. The Board receives reports from management on FirstOntario's exposure to credit, interest rate, liquidity, foreign currency and other price risk regularly in order to monitor financial risks.

(a) Credit Risk:

Credit risk is the potential for financial loss to FirstOntario if a borrower or guarantor fails to meet payment obligations in accordance with agreed terms. FirstOntario's financial assets that are affected by credit risk include loans receivable from Members, investments, and derivative financial instruments. Credit risk is one of the most significant financial risks to FirstOntario.

FirstOntario's primary objective when managing credit risk is to ensure a portfolio of high quality financial assets properly diversified so as to balance the risk associated with the portfolio and return on assets.

Credit risk is managed in accordance with the Credit Risk Management Policy for loans receivable from Members and the Market Risk Management Policy for investments and derivative financial instruments.

17. Financial Risk Management (continued):

(a) Credit Risk (continued):

For loans receivable from Members, credit risk is managed through an infrastructure based upon:

(i) Approval by the Board of all credit risk management policies;

(ii) Approval by the Chief Risk Officer of the discretionary limits of lending officers throughout FirstOntario;

(iii) Credit adjudication subject to compliance with established policies, exposure guidelines and discretionary limits, as well as adherence to established standards of credit assessment. Credit approvals are escalated to the Management Credit Committee and ultimately to the Board of Directors dependent upon credit exposure level and restricted party transactions;

(iv) The Credit Department is charged with oversight of the following:

a. The establishment of guidelines to monitor and limit concentrations in the portfolios in accordance with Board approved policies governing regulatory requirements, industry risk and group exposures;

b. The development and implementation of credit risk models and policies for establishing borrower risk ratings to quantify and monitor the level of risk and facilitate management of retail and commercial credit;

c. Implementation of an ongoing monitoring process of the key risk factors used in FirstOntario credit risk models.

Management has designed and implemented an effective system to measure, monitor and report credit risk exposure. Management reports credit risk exposure to the Board regularly.

In conducting lending activities, FirstOntario diversifies its portfolio of loans receivable from Members in order to reduce overall credit risk. Residential mortgage and personal loans are diversified between authorized loan types, forms of security and certain sectoral groupings.

Commercial loans are diversified through the establishment of credit exposure limits for specific industry sectors, groups of related borrowers and geographic location.

Credit exposure is assessed through the following:

(i) Probability of default, which is an estimate of probability that a Member with a certain borrower risk rating, will default within a one year time horizon.

(ii) Loss given default, which represents the unsecured portion expected to be lost when a borrower defaults.

17. Financial Risk Management (continued):

(a) Credit Risk (continued):

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner as follows:

(i) Commercial loans are principally assessed based on factors including the Member's ability to service debt (debt service coverage ratio) and the secured amount (loan to value ratio). Management regularly reviews the commercial loan portfolio and assesses the credit risk associated with each loan.

(ii) Automated credit scoring systems assist in assessing credit risk associated with residential mortgage and personal loans. These loans are managed as pools of homogeneous risk exposures using internal benchmarks based upon TransUnion Credit Vision and/or Equifax Beacon Scores. These global standard credit scores track each individual's past credit history and, using a mathematical model, predicts how likely a person is to repay a loan.

For investments and derivative financial instruments, risk is measured by reviewing exposure to individual counterparties to ensure the assets are within the policy limit by issuer weightings and by dollar amount. The quality of the counterparties is assessed through published credit rating agencies.

Except as noted, the carrying amount of financial assets recorded in the financial statements represents FirstOntario's maximum exposure to credit risk without taking into account the value of any collateral obtained. FirstOntario is also exposed to credit risk through transactions which are not recognized in the Consolidated Statement of Financial Position, such as granting financial guarantees and extending loan commitments. Refer to Note 22 for further details. The risk of losses from loans undertaken is reduced by the nature and quality of collateral obtained. Refer to Note 6 for a description of the nature of the security held against loans as at the date of the Consolidated Statement of Financial Position.

(b) Interest Rate Risk:

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. FirstOntario is exposed to interest rate risk when entering into banking transactions with Members, primarily deposit and lending activities.

FirstOntario's exposure to interest rate risk depends on the size and direction of interest rate changes, and on the size and maturity of mismatched positions. An interest-sensitive asset or liability is repriced when market interest rates change, when there is cash flow from final maturity, normal amortization, or when Members exercise prepayment, conversion or redemption options are offered for the specific product.

Interest rate risk is managed in accordance with the Structural Risk Management Policy. The Board delegates the responsibility to manage interest rate risk on a day-to-day basis to management.

17. Financial Risk Management (continued):

(b) Interest Rate Risk (continued):

FirstOntario's Structural Risk Management Policy includes:

(i) Guidelines and limits on the structuring of the maturities, price and mix of deposits, loans, mortgages and investments and the management of cash flows derived from financial assets in relation to liabilities.

(ii) Guidelines and limits on the use of derivative products to hedge against changes in cash flows as a result of changes in interest rates.

The following table summarizes carrying amounts of Consolidated Statement of Financial Position assets, liabilities and equity, and derivative instruments to arrive at FirstOntario's interest rate gap based on the earlier of contractual repricing and maturity dates:

						2019
(In thousands of dollars)	**Within 3 months**	**3 Months to 1 year**	**1 to 5 years**	**Over 5 years**	**Non Interest Sensitive**	**Total**
Assets						
Loans receivable	**$ 551,829**	**$ 873,546**	**$ 2,546,035**	**$ 6,471**	**$ -**	**$ 3,977,881**
Cash	**-**	**-**	**-**	**-**	**25,712**	**25,712**
Investments	**12,224**	**54,665**	**224,665**	**-**	**248,568**	**540,122**
Other	**1,145**	**60**	**443**	**-**	**84,279**	**85,927**
	$ 565,198	**$ 928,271**	**$ 2,771,143**	**$ 6,471**	**$ 358,559**	**$ 4,629,642**
Liabilities and equity						
Deposits	**$ 1,132,931**	**$ 1,056,973**	**$ 929,139**	**$ 13**	**$ 497,210**	**$ 3,616,266**
Loans	**125,640**	**109,941**	**416,759**	**-**	**-**	**652,340**
Other	**958**	**159**	**94**	**-**	**359,825**	**361,036**
	$ 1,259,529	**$ 1,167,073**	**$ 1,345,992**	**$ 13**	**$ 857,035**	**$ 4,629,642**
Gap-Financial position	**(694,331)**	**(238,802)**	**1,425,151**	**6,458**	**(498,476)**	**-**
Gap-Derivatives	**(61,561)**	**50,000**	**11,561**	**-**	**-**	**-**
Interest rate gap 2019	**$ (755,892)**	**$ (188,802)**	**$ 1,436,712**	**$ 6,458**	**$ (499,476)**	**$ -**

17. Financial Risk Management (continued):

(b) Interest Rate Risk (continued):

						2018
(In thousands of dollars)	Within 3 months	3 Months to 1 year	1 to 5 years	Over 5 years	Non Interest Sensitive	Total
Assets						
Loans receivable	$ 539,615	$ 760,980	$ 2,275,081	$ 13,576	$ -	$ 3,589,252
Cash	-	-	-	-	62,317	62,317
Investments	11,186	44,441	211,757	-	228,469	495,853
Other	254	82	107	-	64,972	65,415
	$ 551,055	$ 805,503	$ 2,486,945	$ 13,576	$ 355,758	$ 4,212,837
Liabilities and equity						
Deposits	$ 1,064,384	$ 953,674	$ 781,409	$ 121	$ 489,650	$ 3,289,238
Loans	110,155	115,712	382,221	-	-	608,088
Other	1,019	85	91	-	314,316	315,511
	$ 1,175,558	$ 1,069,471	$ 1,163,721	$ 121	$ 803,966	$ 4,212,837
Gap-Financial position	(624,503)	(263,968)	1,323,224	13,455	(448,208)	-
Gap-Derivatives	(44,122)	45,000	(878)	-	-	-
Interest rate gap 2018	$ (668,625)	$ (218,968)	$ 1,322,346	$ 13,455	$ (448,208)	$ -

Key metrics involved in management of interest rate risk include the use of Earnings at Risk ("EaR") and Economic Value of Equity at Risk ("EVEaR"). EaR is defined as the change in the net interest income from a 100 basis point ("bps") shock to interest rates. This exposure is measured over a 12 month period. EVEaR is defined as the difference in the change in the present value of the asset portfolio and the change in the present value of the liability portfolio, including off-Statement of Financial Position instruments, resulting from a 100 bps interest rate shock.

The following table summarizes the EaR and EVEaR as follows:

(In thousands of dollars)	**2019**	2018
EaR - Up 100 bps	**$ (1,252)**	$ 230
EaR - Down 100 bps	**913**	(625)
EVEaR - Up 100 bps	**(3.77)%**	(1.96)%
EVEaR - Down 100 bps	**3.56%**	1.63%

17. Financial Risk Management (continued):

(b) Interest Rate Risk (continued):

Fair Value Hedges

FirstOntario had designated hedging relationships involving bond forwards that hedged mortgage assets that were associated with debt issuances relating to securitization activity as fair value hedges. Realized gains (losses) on these derivatives were deferred and amortized in accordance with the effective interest rate method along with the asset originated. During the year, income of $nil (2018 - $nil) due to hedge ineffectiveness arose and was recorded in other interest income in the Consolidated Statement of Income. Fair values of the bond forwards involved in these hedges that were unrealized at the end of the year was $nil (2018 - $nil). The amount of deferred gain that is expected to be reclassified to the Consolidated Statement of Income over the next 12 months is $74,000 (2018 - $209,000).

Cash Flow Hedges

FirstOntario has designated certain hedging relationships involving interest rate swaps that converted variable rate deposits to fixed rate deposits as cash flow hedges. During the year ended December 31, 2019 amortization of other comprehensive gain of $338,000 (2018 - $646,000) was recorded in other interest expense in the Consolidated Statement of Income. The fair value of interest rate swaps involved in hedging relationships at the end of the year was a liability of $41,000 (2018 - asset of $19,000). The amount of other comprehensive gain that is expected to be reclassified to the Consolidated Statement of Income over the next 12 months is $3,000 (2018 - $341,000).

FirstOntario has also designated hedging relationships involving bond forwards that hedged forecasted debt issuances associated with securitization activity as cash flow hedges. Realized gains (losses) on these derivatives are deferred and amortized in accordance with the effective interest rate method along with the debt originated. The fair value of bond forwards involved in these hedges at the end of the year was an asset of $120,000 (2018 - liability of $971,000). The amount of other comprehensive gain that is expected to be reclassified to the Consolidated Statement of Income over the next 12 months is $574,000 (2018 - $164,000).

17. Financial Risk Management (continued):

(c) Liquidity Risk:

Liquidity risk is the risk that FirstOntario will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets.

FirstOntario engages in proper liquidity risk management practices to comply with regulatory requirements and to guarantee the funding of Member needs and obligations. FirstOntario's overall objective when managing liquidity is to ensure limited exposure to material liquidity risk.

Liquidity risk is managed in accordance with the Liquidity Risk Management Policy. Key elements of this policy include limits on the sources, quality and amount of liquid assets to meet operational requirements, regulatory requirements and contingency funding. Liquidity is monitored by management through FirstOntario's Asset/Liability Committee ("ALCO"), consisting of the executive.

Under the Regulations, FirstOntario must establish and maintain prudent levels of liquidity that are sufficient to meet its cash flow needs, including depositor withdrawals and all other obligations as they come due. FirstOntario targets to maintain operating liquidity within the range of 8% to 16%. The low end of the range has been established in order to maintain a comfortable cushion beyond the minimum policy requirements in order to meet cash needs, even during periods of market volatility. As at December 31, 2019, FirstOntario's liquidity ratio was 9.53% (2018 - 11.32%) and assets held for liquidity purposes totaled $387,141,000 (2018 - $394,936,000), consisting of $273,621,000 (2018 - $254,942,000) liquidity reserve deposits, $87,808,000 (2018 - $77,677,000) National Housing Act mortgage-backed securities held for liquidity and $25,712,000 (2018 - $62,317,000) cash.

The following tables demonstrate FirstOntario's ability to pay future obligations as financial assets and liabilities mature as at December 31, 2019 and 2018. These cash flows include both the contractual cash flows currently exposed on the Consolidated Statement of Financial Position and the cash flows that will be generated in the future. In the case of loans, the cash flows include estimated prepayments and credit losses based on experience and current economic conditions.

17. Financial Risk Management (continued):

(c) Liquidity Risk (continued):

(In thousands of dollars)	Within 1 month	2 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Not Specified	Total
							2019
Assets							
Loans receivable from Members	**$ 511,215**	**$ 1,396,291**	**$ 1,373,478**	**$ 942,574**	**$ 6,848**	**$ -**	**$ 4,230,406**
Cash	**25,712**	**-**	**-**	**-**	**-**	**-**	**25,712**
Investments	**7,741**	**72,883**	**124,027**	**103,304**	**-**	**246,849**	**554,804**
Derivative financial instruments	**2**	**1,202**	**120**	**324**	**-**	**-**	**1,648**
Total cash inflow	**$ 544,670**	**$ 1,470,376**	**$ 1,497,625**	**$ 1,046,202**	**$ 6,848**	**$ 246,849**	**$ 4,812,570**
Liabilities							
Members' deposits and shares	**$ 1,374,709**	**$ 1,369,883**	**$ 790,740**	**$ 179,584**	**$ 6**	**$ 131,016**	**$ 3,845,938**
Loans payable	**57,362**	**187,243**	**283,414**	**165,998**	**-**	**-**	**694,017**
Other liabilities	**78,002**	**-**	**-**	**-**	**-**	**-**	**78,002**
Derivative financial instruments	**26**	**1,091**	**88**	**6**	**-**	**-**	**1,211**
Total cash outflow	**$ 1,510,099**	**$ 1,558,217**	**$ 1,074,242**	**$ 345,588**	**$ 6**	**$ 131,016**	**$ 4,619,168**

(In thousands of dollars)	Within 1 month	2 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Not Specified	Total
							2018
Assets							
Loans receivable from Members	$ 483,585	$ 1,050,300	$ 1,467,497	$ 811,463	$ 15,896	$ -	$ 3,828,741
Cash	62,317	-	-	-	-	-	62,317
Investments	3,662	55,680	112,169	110,017	-	226,806	508,334
Derivative financial instruments	93	243	106	1	-	-	443
Total cash inflow	$ 549,657	$ 1,106,223	$ 1,579,772	$ 921,481	$ 15,896	$ 226,806	$ 4,399,835
Liabilities							
Members' deposits and shares	$ 1,341,210	$ 1,204,832	$ 638,069	$ 203,452	$ 144	$ 128,572	$ 3,516,279
Loans payable	14,934	166,489	342,220	128,748	-	-	652,391
Other liabilities	46,647	-	-	-	-	-	46,647
Derivative financial instruments	68	1,036	78	13	-	-	1,195
Total cash outflow	$ 1,402,859	$ 1,372,357	$ 980,367	$ 332,213	$ 144	$ 128,572	$ 4,216,512

17. Financial Risk Management (continued):

(d) Foreign Currency Risk:

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. FirstOntario is exposed to foreign currency risk as a result of its Members' activities in US dollar currency denominated deposits and cash transactions, as well as US dollar investments. Activities that expose FirstOntario to currency risk are measured, monitored and controlled daily to minimize risk. At any point in time, net US dollar exposure is limited by the Market Risk Management Policy to $1,000,000 through the use of foreign exchange forward contracts. As at December 31, 2019, FirstOntario does not have significant exposure to changes in foreign currency exchange rates.

(e) Equity and Other Price Risk:

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or currency risk. FirstOntario is primarily exposed to other price risk through actively traded fair value investments. However, these investments are limited by policy to ensure diversification and quality of financial assets. As at December 31, 2019, had the value of FirstOntario's managed funds, preferred, and common shares increased or decreased by 10% with all other variables remaining unchanged, the portfolio's asset value would have increased or decreased respectively by $10,322,000 (2018 - $8,472,000) or 4.3% (2018 - 3.8%) of total Members' Equity.

18. Fair Values of Financial Instruments:

The following table represents the fair values of FirstOntario's financial instruments. The fair values disclosed do not include the value of assets that are not considered financial instruments, such as fixed assets. The value of intangibles such as long-term Member relationships are also not included in the fair value amounts.

While the fair value amounts are intended to represent estimates of the amounts at which these instruments could be exchanged in a current transaction between willing parties, some of FirstOntario's financial instruments lack an available trading market. Consequently, the fair values presented are estimates derived using present value and other valuations techniques and may not be indicative of the net realizable values.

Due to the judgment used in applying a wide range of acceptable valuation techniques and estimates in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

18. Fair Values of Financial Instruments (continued):

(In thousands of dollars)	FVTPL- Mandatorily	FVOCI- Equity Instruments	Amortized Cost	Total Carrying Value	2019 Fair Value
Financial Assets					
Cash and cash equivalents	**$ -**	**$ -**	**$ 25,712**	**$ 25,712**	**$ 25,712**
Investments	**140,654**	**21,619**	**293,369**	**455,642**	**455,043**
Loans receivable from Members	**-**	**-**	**3,996,068**	**3,996,068**	**3,961,608**
Derivatives	**1,648**	**-**	**-**	**1,648**	**1,648**
Total financial assets	**$ 142,302**	**$ 21,619**	**$ 4,315,149**	**$ 4,479,070**	**$ 4,444,011**
Financial Liabilities					
Members' deposits and shares	**$ -**	**$ -**	**$ 3,659,537**	**$ 3,659,537**	**$ 3,661,059**
Loans payable	**-**	**-**	**652,340**	**652,340**	**649,460**
Accounts payable and accrued liabilities	**-**	**-**	**58,853**	**58,853**	**58,853**
Lease Liabilities	-	-	**19,149**	**19,149**	**19,149**
Derivatives	**1,211**	**-**	**-**	**1,211**	**1,211**
Total financial liabilities	**$ 1,211**	**$ -**	**$ 4,389,879**	**$ 4,391,090**	**$ 4,388,732**

(In thousands of dollars)	FVTPL- Mandatorily	FVOCI- Equity Instruments	Amortized Cost	Total Carrying Value	2018 Fair Value
Financial Assets					
Cash and cash equivalents	$ -	$ -	$ 62,317	$ 62,317	$ 62,317
Investments	120,347	20,317	267,384	408,048	405,533
Loans receivable from Members	-	-	3,609,006	3,609,006	3,591,045
Derivatives	443	-	-	443	443
Total financial assets	$ 120,790	$ 20,317	$ 3,938,707	$ 4,079,814	$ 4,059,338
Financial Liabilities					
Members' deposits and shares	$ -	$ -	$ 3,332,404	$ 3,332,404	$ 3,328,558
Loans payable	-	-	608,088	608,088	600,588
Accounts payable and accrued liabilities	-	-	45,573	45,573	45,573
Derivatives	1,195	-	-	1,195	1,195
Total financial liabilities	$ 1,195	$ -	$ 3,986,065	$ 3,987,260	$ 3,975,914

Interest rate sensitivity is the main cause of change in fair values of FirstOntario's financial instruments.

The following methods and assumptions were used to estimate the fair value of financial instruments:

(a) The fair values of cash and accounts payable and accrued liabilities are assumed to approximate their book values, due to their short-term nature.

(b) The estimated fair value of floating rate loans, demand deposits and floating rate deposits are assumed to be equal to book value as the interest rates on these loans and deposits reprice to market on a periodic basis.

18. Fair Values of Financial Instruments (continued):

(c) The estimated fair values of fixed rate investments, fixed rate loans and fixed rate deposits are determined by discounting the expected future cash flows of these investments, loans, deposits and borrowings at current market rates for products with similar terms and credit risks.

(d) The estimated fair values of derivative instruments are determined through valuation models on the derivative notional amounts, maturity dates and rates.

(e) The estimated fair values of investments in publicly listed equity securities are determined using quoted market prices.

Fair value measurements can be classified in a hierarchy in order to discern the significance of management assumptions and other inputs incorporated into the measurements. The three levels of fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – Inputs for the asset or liability that are not based on observable market data. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments are required to reflect differences between the instruments.

The following table summarizes the classification of FirstOntario's financial instruments held and reported on the Consolidated Statement of Financial Position at fair value:

				2019
(In thousands of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Investments – FVTPL	**$ 94,939**	**$ 39,455**	**$ 6,260**	**$ 140,654**
Investments – FVOCI	**9**	**-**	**21,610**	**21,619**
Derivative financial instruments	**-**	**1,648**	**-**	**1,648**
Total assets held at fair value	**$ 94,948**	**$ 41,103**	**$ 27,870**	**$ 163,921**
Liabilities				
Derivative financial instruments	**$ -**	**$ 1,211**	**$ -**	**$ 1,211**
Total liabilities held at fair value	**$ -**	**$ 1,211**	**$ -**	**$ 1,211**

18. Fair Values of Financial Instruments (continued):

				2018
(In thousands of dollars)	Level 1	Level 2	Level 3	Total
Assets				
Investments – FVTPL	$ 76,860	$ 37,767	$ 5,750	$ 120,377
Investments – FVOCI	9	-	20,308	20,317
Derivative financial instruments	-	443	-	443
Total assets held at fair value	$ 76,869	$ 38,210	$ 26,058	$ 141,137
Liabilities				
Derivative financial instruments	$ -	$ 1,195	$ -	$ 1,195
Total liabilities held at fair value	$ -	$ 1,195	$ -	$ 1,195

The following table summarizes the Level 2 fair values of FirstOntario's financial instruments whose carrying value are not fair value on the Consolidated Statement of Financial Position as at December 31, 2019 and December 31, 2018. Financial assets and liabilities whose carrying values are a reasonable approximation of fair value are not included. FirstOntario's financial instruments held at amortized cost are all classified as Level 2 as identified below:

(In thousands of dollars)	**2019**	2018
Assets		
Loans receivable	**$ 3,961,608**	$ 3,589,267
Investments	**292,771**	264,839
Total assets held at fair value	**$ 4,254,379**	$ 3,854,106
Liabilities		
Deposits and shares	**$ 3,661,059**	$ 3,328,558
Loans payable	**649,460**	600,588
Total liabilities held at fair value	**$ 4,310,519**	$ 3,929,146

The fair value measurement of all of the joint ventures has been categorized as a level 3 fair value based on the inputs of the valuation techniques used (See Note 9).

19. Employee Retirement Benefits:

FirstOntario provides retirement benefits to certain employees. These benefits include registered pension plans, medical benefits, dental care and life insurance.

The fair value of accrued benefit obligations were determined by independent actuaries as at December 31, 2019 and December 31, 2018.

	Defined Benefit Pensions		Other Defined Benefit Plans	
(In thousands of dollars)	**2019**	2018	**2019**	2018
Accrued benefit obligation				
Balance at the beginning of year	**$ 17,453**	$ 18,768	**$ 5,091**	$ 5,516
Current service cost	**433**	542	**46**	45
Interest cost	**677**	639	**192**	184
Benefits paid	**(1,070)**	(999)	**(239)**	(133)
Actuarial (gain) loss	**2,479**	(1,497)	**276**	(521)
Balance at end of year	**$ 19,972**	$ 17,453	**$ 5,366**	$ 5,091
Plan assets				
Fair value at beginning of year	**$ 15,530**	$ 16,066	**$ -**	$ -
Expected return on plan assets	**596**	534	**-**	-
Actuarial gain (loss) on plan assets	**1,506**	(390)	**-**	-
Employer contributions	**504**	319	**239**	133
Benefits paid	**(1,070)**	(999)	**(239)**	(133)
Fair value at end of year	**17,066**	15,530	**-**	-
Balance at end of year	**$ (2,906)**	$ (1,923)	**$ (5,366)**	$ (5,091)

The following table provides the amounts recognized in the Consolidated Statement of Financial Position as follows:

	Defined Benefit Pensions		Other Defined Benefit Plans	
(In thousands of dollars)	**2019**	2018	**2019**	2018
Accrued benefit liabilities recorded in accounts payable and accrued liabilities	**$ (2,906)**	$ (1,923)	**$ (5,366)**	$ (5,091)
Balance at end of year	**$ (2,906)**	$ (1,923)	**$ (5,366)**	$ (5,091)

19. Employee Retirement Benefits (continued):

FirstOntario's net benefit plan expenses recognized in other comprehensive income were as follows:

	Defined Benefit Pensions		Other Defined Benefit Plans	
(In thousands of dollars)	**2019**	2018	**2019**	2018
Cumulative actuarial losses at beginning of year	**$ (2,885)**	$ (3,992)	**$ 923**	$ 402
Actuarial gain (loss) in the year on liability	**(2,479)**	1,497	**(276)**	521
Actuarial gain (loss) in the year on plan assets	**1,506**	(390)	**-**	-
Cumulative actuarial gain (loss)	**$ (3,858)**	$ (2,885)	**$ 647**	$ 923

The net loss recognized in other comprehensive income of $1,006,000 (2018 net gain - $1,228,000) during the year are net of a tax recovery of $243,000 (2018 tax expense- $400,000) as disclosed in Note 21.

FirstOntario's net benefit plan expenses recognized in the Consolidated Statement of Income were as follows:

	Defined Benefit Pensions		Other Defined Benefit Plans	
(In thousands of dollars)	**2019**	2018	**2019**	2018
Current service cost	**$ 433**	$ 542	**$ 46**	$ 45
Interest cost	**677**	639	**192**	184
Expected return on plan assets	**(596)**	(534)	**-**	-
Total included in employee benefits expense	**$ 514**	$ 647	**$ 238**	$ 229

	Defined Contribution Pension	
(In thousands of dollars)	**2019**	2018
Contributions recorded as expenses	**$ 1,968**	$ 1,838

These net benefit plan and contribution expenses are included in salaries and employee benefits on the Consolidated Statement of Income. Aggregate contributions relating to defined benefit pensions and other defined benefit plans expected for the year ended December 31, 2020, is $798,000.

The significant actuarial assumptions adopted by FirstOntario are as follows (weighted-average assumptions):

	Defined Benefit Pensions		Other Defined Benefit Plans	
(In thousands of dollars)	**2019**	2018	**2019**	2018
Discount rate	**3.1%**	3.9%	**3.1%**	3.9%
Rate of compensation increase	**2.0%**	2.0%	**-**	-

19. Employee Retirement Benefits (continued):

The expected rate of return on plan assets is based on the risks and associated returns expected of the underlying plan assets. Plan assets are held in balanced funds which includes equities and long-term bonds.

For measurement purposes, 5% and 3% rates of increase in the per capita cost of covered health care and dental care benefits respectively were assumed for 2019. The rate of increase for health care benefits was assumed to remain unchanged at 5%. The rate of increase for dental care benefits was assumed to remain unchanged at 3%.

A one percentage-point change in assumed health-care cost trend rates, discount rates and salary costs would have the following impact on other defined benefit plans:

	2019		2018	
(In thousands of dollars)	**Defined benefit**	**Other plans**	Defined benefit	Other plans
Health care				
1% increase	**$ n/a**	**$ 422**	$ n/a	$ 379
1% decrease	**n/a**	**(364)**	n/a	(328)
Discount rate				
1% increase	**$ (3,191)**	**$ (546)**	$ (2,616)	$ (518)
1% decrease	**3,803**	**609**	3,082	577
Salary rate				
1% increase	**$ 164**	**$ n/a**	$ 144	$ n/a
1% decrease	**(160)**	**n/a**	(140)	n/a

20. Other Income:

(In thousands of dollars)	**2019**	2018
Service charges	**$ 4,023**	$ 3,394
Mortgage and loan fees	**3,943**	3,662
Commissions	**2,122**	2,006
Other operational income	**1,022**	760
Wealth management	**2,504**	2,458
Securitization	**5,424**	6,120
Real estate	**13,139**	6,952
Other investment income	**10,270**	6,066
Total other income	**$ 42,447**	$ 31,418

21. Income Taxes:

The components of income tax expense (benefit) are as follows:

(In thousands of dollars)		2019		2018
Current income tax expense	$	1,382	$	(1,027)
Deferred income tax expense		1,865		2,366
Total income tax expense	$	3,247	$	1,339

Major components of income tax expense (benefit) include the following:

	2019	2018
Combined federal and provincial income taxes	26.5%	26.5%
Small business and credit union deductions	(8.0)	(8.0)
Income and expense permanent differences	0.3	0.5
Tax rate change	-	(4.7)
Other	(0.2)	(0.2)
Total income tax expense	18.6%	14.1%

The movements of deferred tax assets and liabilities are presented below:

(In thousands of dollars)		January 1, 2019		Charge to Income		Charge to OCI		December 31, 2019
Fixed assets	$	(3,397)	$	(384)	$	-	$	(3,781)
Allowance for loan losses		810		123		-		933
Derivatives		221		26		-		247
Employee retirement benefits		1,289		(4)		243		1,528
Investments		(4,593)		(1,942)		-		(6,535)
Cash flow hedges		324		-		(11)		313
Other		(982)		316		-		(666)
Total	$	(6,328)	$	(1,865)	$	232	$	(7,961)

(In thousands of dollars)		January 1, 2018		Charge to Income		Charge to OCI		December 31, 2018
Fixed assets	$	(2,218)	$	(1,179)	$	-	$	(3,397)
Allowance for loan losses		1,275		(465)		-		810
Derivatives		103		118		-		221
Employee retirement benefits		1,668		21		(400)		1,289
Investments		(4,035)		(558)		-		(4,593)
Cash flow hedges		269		(23)		78		324
Other		(702)		(280)		-		(982)
Total	$	(3,640)	$	(2,366)	$	(322)	$	(6,328)

21. Income Taxes (continued):

The tax effect of items recorded in the Consolidated Statement of Other Comprehensive Income was as follows:

(In thousands of dollars)		2019		2018
Net (gain) loss on cash flow hedges	$	(13)	$	236
Net (gain) loss on cash flow hedges transferred to earnings		2		(158)
Actuarial (gain) loss on defined benefit pension plans		243		(400)
Total tax effect of components of other comprehensive income	$	232	$	(322)

22. Commitments:

(a) Mortgage commitments and lines of credit:

At December 31, 2019, FirstOntario has issued commitments to provide residential mortgage and commercial loans totaling $252,186,000 (2018 - $244,526,000). FirstOntario has also provided lines of credit to Members totaling $825,377,000 at December 31, 2019 (2018 - $826,668,000), against which Members have drawn $377,413,000 (2018 - $392,862,000).

(b) Credit facilities:

Central 1 has provided an operating loan facility to FirstOntario of $164,000,000 (2018 - $164,000,000). Loans to Members have been pledged as security for these facilities and the term loan by an assignment of book debts and a general security agreement.

Caisse centrale Desjardins has provided an operating facility to FirstOntario in the amount of $100,000,000 (2018 - $100,000,000). When amounts are drawn against the facility, certain residential mortgages have been pledged as security.

See the Consolidated Statement of Financial Position and Note 15 for the outstanding amounts on these facilities.

22. Commitments (continued):

(c) Contracts:

Interac ATM and point of sale switching servicing totaling $2,893,000 over the next 4 years at present service levels (2018 - $3,803,000 over the next 5 years).

Banking system support services and software maintenance totaling $6,578,000 over the next 12 years (2018 - $7,087,000 over the next 13 years).

Software licensing and support services totaling $850,000 over the next 5 years at present service levels (2018 - $nil).

Telephone network and voice services totaling $4,766,000 over the next 5 years at present service levels (2018 - $936,000 over the next 2 years).

Sponsorship agreement totaling $1,005,000 over the next 2 years (2018 - $1,492,000 over the next 3 years).

(d) Naming rights:

In fiscal 2017, FirstOntario entered into an agreement with Global Spectrum Facility Management, L.P. for the naming rights to the FirstOntario Concert Hall. The agreement is effective January 1, 2017 and provides the naming rights for 10 years at an estimated cost of $283,000 per year for an aggregate total of $2,830,000.

In fiscal 2017, FirstOntario entered into an agreement with The Corporation of the Town of Milton for the naming rights to the FirstOntario Centre for the Arts. The agreement is effective January 24, 2017 and provides the naming rights for 25 years at an estimated cost of $226,000 per year for the first five years for an aggregate total of $1,130,000.

In fiscal 2015, FirstOntario entered into an agreement with The Corporation of the City of St. Catharine's, for the naming rights to the FirstOntario Performing Arts Centre. The agreement is effective January 1, 2016 and provides the naming rights for 25 years at an estimated cost of $678,000 per year for the first five years for an aggregate total of $3,390,000.

In fiscal 2014, FirstOntario entered into an agreement with Global Spectrum, L.P. for the naming rights to the FirstOntario Centre. The agreement provides the naming rights for 10 years at an estimated cost of $396,000 per year for an aggregate total of $3,955,000.

23. Change in Accounting Policy:

Except for the changes below, FirstOntario has consistently applied the accounting policies as set out in Note 3 to all periods presented in these consolidated financial statements.

IFRS 16 Leases:

On January 1, 2019, FirstOntario adopted IFRS 16 *Leases*. IFRS 16 replaced the following: IAS 17, *Leases;* IFRIC 4, *Determining Whether an Arrangement Contains a Leases*; SIC-15, *Operating Leases – Incentives;* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

FirstOntario applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated. The information presented for 2018 does not reflect the requirements of IFRS 16 and therefore is not comparable to the information presented for 2019 under IFRS 16.

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains substantially unchanged, such that lessors continue to classify leases as finance or operating leases.

On adoption of IFRS 16, FirstOntario applied the following:

(a) A single discount rate to a portfolio of leases with reasonably similar characteristics and excluding short-term and low value leases

(b) Applying a practical expedient to ‘grandfather’ FirstOntario’s previous assessment of which existing contracts are, or contain, leases

(c) Leases with a lease term ending within 12 months of the date of application were considered short-term leases

(d) Applying hindsight in determining the lease term if the contract contains options to extend or terminate the lease

On January 1, 2019, in connection with the adoption of IFRS 16, FirstOntario recorded a $20 million increase to fixed assets and lease liabilities on the Consolidated Statement of Financial Position, respectively, relating to certain branch and office premise leases that were previously classified as operating leases and disclosed as off-balance sheet commitments as at December 31, 2018. The lease liability consisted of operating lease commitments at December 31, 2018 discounted at FirstOntario’s estimated incremental borrowing rate at January 1, 2019. FirstOntario valued the opening right-of-use asset equal to the opening lease liability, adjusted for prepaid or deferred rent on the Consolidated Statement of Financial Position at the time of transition. As such, there was no adjustment to opening retained earnings.

Refer to Note 10 and 11 for further details on the impact of the transition to IFRS 16 on fixed assets and lease liabilities.