

FirstOntario
CREDIT UNION

2021 ANNUAL REPORT

Forward Together

START

2022

BOARD REPORT



OTTO
PENNER

BOARD CHAIR

As a member-owned financial co-operative, FirstOntario is always searching for new and better ways to serve and support our members. We've been through another challenging year, and I think it's safe to say many of us thought the pandemic would be behind us. But despite any challenges, we continue to offer the trusted service and financial supports our members expect from us while remaining focused on our commitment to strengthening our communities.

Our Annual General Meeting is an important way we connect to share information, recognize our successes, and provide an opportunity for member feedback. We once again hosted our meeting virtually. While this format is still new for some, it has proven to be an effective way to reach more members, with the opportunity to join from the comfort of home. We will continue along this path in 2022 to maximize the effectiveness of this virtual platform to engage with as many members as possible. Our Board Directors work hard all year round through several committees and meetings to ensure our Credit Union is steering in the right direction with careful consideration to the input we receive from our members.

Becoming a certified Living Wage Employer was a natural progression for our Credit Union because supporting our employees is just as important as being there for our members. By joining the Ontario Living Wage Network, we affirmed our commitment to being an employer that invests in a skilled, healthy, and vibrant workforce, valuing the contributions of all our employees. We're happy to join this growing list of more than 300 employers in Ontario who lead by example with the hope other organizations will follow suit and commit to the well-being of their employees.

The success of our Credit Union gives us the opportunity to reinvest our profits back into our communities. This aligns with our mission to improve the lives of everyone around us and address issues like, affordable housing, homelessness, financial literacy, and food insecurity. We continued to support student nutrition programs with another \$250,000 donation as we inch toward a \$2 million milestone since we began supporting these initiatives in 2014.

We gave an additional \$100,000 to our community partners to further address food inequity. Despite the pandemic, these partners ensured that young students still had access to healthy food and snacks so they could focus on learning and having fun.

While our Blue Wave employee volunteers remain a vital component of these programs, some were sidelined last year. But just as many others had to, our partner agencies found new ways to make an impact and Blue Wavers stepped up to deliver boxes of apples or pre-packaged goods when called upon, following all safety protocols. I know everyone is looking forward to getting back in schools to prepare the food as soon as it is safe to do so.

Sections of our quarterly member newsletter feature the ways we continue to make a positive impact and highlight how we invest in initiatives like Sleepless in our Cities, Niagara 2022 Canada Games, support for the arts and entertainment industry through The AFC (Actors' Fund of Canada), Go Paperless campaigns, local sponsorships, GivingTuesday donations, Education Awards, Finance Friday segments and new partnerships like the financial literacy education program we began with Brock University.

We are nearing a decade of support through the FirstOntario 1Awards and more than \$1.6 million has been invested into promising small businesses in our communities thanks to our partners. Through our ninth annual competition, we met talented entrepreneurs who have led the way in innovation, inspiration, and dedication. Finalists from the Hamilton, Halton and Brant regions presented excellent pitches to the judges and represented their communities with pride - albeit virtually this time. These small business owners were a great representation of the local talent that's right here, and FirstOntario is proud to continue to offer support through this program.

The future looks bright. I would like to thank our members for your support and for allowing us the opportunity to be a part of your financial journey. The trust you place in the board to oversee the Credit Union today and help guide it for future success is something we take very seriously. It's been a pleasure to serve as your Board Chair and to be a part of the many achievements and growing strength of FirstOntario.



CEO REPORT



LLOYD
SMITH

CEO

FirstOntario Credit Union has been putting our members and communities first for over 80 years, and our approach to 2021 was no different. Despite the roller coaster ride created by the pandemic, we remained focused on achieving our operational and community impact objectives, and on our commitment to delivering the best possible banking experience for our members.

FirstOntario's financial performance was very strong, with all areas of the Credit Union contributing to a record year of earnings. We invested our profits in new and enhanced products and services for our members, in developing our people, and in strengthening our communities. Our financial success also allowed us to invest in the future of our Credit Union by growing our regulatory capital, far exceeding requirements for this key indicator of the strength, stability, and health of FirstOntario.

Doing our part to keep members and employees protected is always our priority and we continued to follow the necessary health and safety protocols in

our branches. Through it all, our dedicated branch teams were there to serve and meet the needs of our members with understanding, compassion, and professionalism.

Expanding and enhancing our digital services continues to be a key focus and proved to be increasingly important in a year that once again required us to react, adapt and respond to changing direction for banking in our branches. More members are embracing the creative digital banking solutions and innovative technologies we offer, and new members choose FirstOntario because we have the digital services they want and need. Demand for online and mobile banking increased significantly, indicating members are comfortable with and value the convenience of anywhere, anytime banking.

Our Personal Assisted Teller (PAT) service, Member Service Centre (MSC) and Member Solutions Team (MST) extended their reach, giving members more options to bank and manage their finances - virtually.

New interactive teller machines were installed offering streamlined ATM and PAT access for members. Our PAT team offers extended hours of service for members to manage their finances, through live, face-to-face video interactions.

Expanded MSC and MST services saw activities that once needed in-person interaction like signing documents and completing complex financial transactions, now being completed over the phone or online through a video chat.

The launch of Saven Financial, a division of FirstOntario Credit Union - a fully digital, self-serve experience with an easy-to-use online platform - was an important milestone. This new way to save welcomed over 1,500 members, exceeding targets, and reaching \$150 million in deposits for our Credit Union. The Saven story has just begun. The multi-year plan for this platform includes growing brand awareness, introducing more products, launching new interactive tools, and expanding financial wellness tips and information.

We finalized the introduction of Creative Arts Financial, a division of FirstOntario Credit Union committed to serving the unique needs of the arts and entertainment industry. Looking ahead, we will continue to develop this digital platform, add products and services designed specifically for this industry and ramp up promotion to attract more members from across Canada.

Our community impact initiatives remained a core commitment for FirstOntario. In a year marked by an increasing need to address food insecurity, we responded with a \$250,000 donation to student nutrition programs and over \$100,000 in support to food banks across our regions. Beginning to reflect on and formalize our Credit Union's purpose statement as our guiding touchpoint for our 2023 - 2025 strategic plan was a key activity. We will continue to focus on the positive impact we can make in our communities and what truly sets us apart.

We continue to invest in the success of our employees and focus on creating a superior employee experience, vibrant culture, and strong employee engagement. Our annual employee survey gives employees the opportunity to offer direct feedback



on how we are doing and how we can improve. As a result of last year's survey, two new employee-driven committees were formed. Employees meet and share their ideas with senior leaders on the Ideas to Impact (i2i) Committee while the Wellness Committee focuses on financial, physical, social, and mental health. Believing that engagement is also strengthened through ongoing learning and professional development, we formalized a unique relationship with the e-Leadership Academy to support growth in leadership skills and competencies.

The efforts and commitment of our leadership teams and our Board of Directors are central to our success. These individuals rise to every challenge and opportunity and exemplified the co-operative principles that form the foundation of our Credit Union.

I am very fortunate to lead such an amazing group of people and I thank all FirstOntario employees for their hard work and many contributions to our achievements. We were successful while enduring another challenging year, especially for those working in our branches, and I am grateful for all their efforts and commitment to serving our members.

To our members, everything we do is because of our commitment to you, and I thank you for your ongoing support. With our members' best interests at heart, we strive to deliver the advice, products and services needed to help you reach your financial goals. I know that together, with a shared purpose, we will continue to grow and build FirstOntario Credit Union.

STRONGER TOGETHER

By leveraging our credit union's unique skills, expertise and commitment, we help bring about meaningful change and create strong communities for all.



Member of the Ontario Living Wage Network

We are a Living Wage Champion and an employer committed to investing in a skilled, healthy and vibrant workforce.

We believe there is power in connection. By supporting our employees, members and our communities, FirstOntario connects with people and causes in a way that maximizes our collective impact to make a meaningful difference.

Building healthy, growing and vibrant communities.

KEY PILLARS OF OUR COMMUNITY FOCUS

A photograph of a lunchbox containing a sandwich, carrots, grapes, and an apple, with a glass of orange juice nearby.

Student Nutrition and Food Support



Financial Literacy

A photograph of a person's hands holding a small pink house-shaped object.

Affordable Housing and Homelessness Awareness



Hands-on Community Impact in extraordinary times.

FirstOntario's employee-led Blue Wave volunteer program is how we provide hands-on contributions to our communities. Even though the impact of the pandemic did limit some community events and activities throughout the year, our Blue Wave volunteers remained part of the solution either virtually or when permitted, in-person.

We work with our partners to continue to find innovative ways to help with community needs. By shifting resources and working with other like-minded groups, we worked to direct support in new ways and to where it was needed most. As we look forward to 2022, we hope for a year that will enable our employee volunteers to once again actively engage in the community and celebrate the enthusiastic efforts and many achievements of our Blue Wave employee volunteers.



491 HOURS



277 VOLUNTEERS



81 EVENTS

RESPONDING TO INCREASED COMMUNITY NEED IN 2021



Homelessness, Safe and Affordable Housing Initiatives

- Coldest Night of the Year - Neighbour to Neighbour
- Coldest Night of the Year - Norfolk County Youth Unlimited
- Coldest Night of the Year - Start Me Up Niagara
- Coldest Night of the Year - Inn of Oxford
- Bethlehem Housing - Empty Bowls at Home Fundraiser
- Halton Women's Place Golf Tournament and Hope in High Heels Walk



Food Insecurity Programs and Agencies

The pandemic continued to highlight the challenges many face when it comes to food insecurity. To help, over \$100,000 was donated to individual food banks across our regions.

- Project Share Niagara Falls
- The Hope Centre Welland
- Community Care St. Catharines & Thorold
- Neighbour to Neighbour
- Good Shepherd
- Hamilton Food Bank
- Burlington Food Bank
- Fare Share Food Bank Oakville
- Cayuga Food Bank
- Tillsonburg Helping Hand Food Bank



Health and Wellness

- Hamilton Health Sciences Foundation
- Hotel Dieu - Snowflakes and Angels Campaign
- Cancer Assistance Program
- Dr. Bob Kemp Hospice
- Pathstones Mental Health



Caring for Communities

- ACTRA
- Big Brothers and Big Sisters of Oxford County
- Wesley
- Burlington Community Foundation
- Norfolk Community Help Centre
- Runanthropic
- CHCH Christmas Toy Drive
- Hamilton Arts Council
- Rock's Theatre Hamilton





United Way
Halton & Hamilton

Our commitment to United Way continued to be an important avenue for our employees, members and the community to support those in need. Together, our efforts resulted in almost \$40,000 in donations, or more than \$75 in donations per FirstOntario employee.



2021 HIGHLIGHTS

Raised Over \$11,000

CEO Lloyd Smith participated in the first annual Sleepless in our Cities event, by sleeping in his car one night in February to raise funds and shed a light on the challenges faced by youth and adults living in poverty.

Raised \$5,000

Our members supported United Way through FirstOntario's unique "Go Paperless" fundraising campaign. FirstOntario committed to making a donation on behalf of every member who chose digital statements instead of receiving paper, resulting in a \$5,000 donation.

Employee giving plus corporate donation \$22,000

FirstOntario employees raised more than \$18,000 and along with an increased corporate donation, FirstOntario contributed a total of \$22,000.





INVESTING IN LEARNING

Knowledge is power. FirstOntario is committed to helping to build solid financial literacy foundations that support making important decisions with confidence.

13 EDUCATION AWARD WINNERS

NICO CONTINELLI		LOGAN MACHIN
HUYNH MY LINH DO		SOPHIE YANG
ETHAN DELUCA		ADYN HEK
SAGE STOYKA KAY		CONNOR IRVINE
JULIE GOULDBY		QUANG PHAM NGOC
ETHEN EDWARDS		SYDNEY CROSS
ALEXANDRIA OJHA		

Education Awards

We focus on supporting youth by offering leadership opportunities and funding for post-secondary education across our regions including: McMaster University, Mohawk College, Brock University, Niagara College and Fanshawe College.



**\$13,000 in
scholarships**



12 Webinars and Online Sessions

Financial Literacy & Wellness Programs

We offered online foundational financial literacy sessions through the Each One, Teach One (EOTO) program, created by Vancity Credit Union. Topics included: basic budgeting, building a healthy credit history, identity theft and fraud prevention, RRSPs and TFSA's, home buying readiness, and much more.

24 Episodes of Finance Friday

Our Finance Friday segments on CHCH Morning Live have delivered relevant financial information and insights to viewers for over a decade. The episodes offer audiences information, a better understanding and confidence to make important financial decisions.



Student-focused Financial Literacy Sessions and Education

We kicked-off a three year partnership with **Brock University** to help students of all ages build their financial literacy skills through the development of innovative student-centred programming, featuring the Goodman Lemonade and FinTips programs.



Goodman Lemonade, facilitated by Goodman Group, teaches Grade 4 students financial concepts by showing them how to brainstorm, design and market a lemonade stand business. Students participated in a virtual version of the program that featured online workshops, activities and a presentation from FirstOntario on expenses, profit and giving back to the community.



FinTip\$ is a unique digital program designed in collaboration with Student Accounts & Financial Aid for university students interviewing a FirstOntario financial expert to provide student focused knowledge and understanding on a series of financial topics.

INVESTING IN NUTRITION

Student nutrition programs play a critical role in learning. Access to healthy food and snacks helps fuel young students with energy and nutrition for a full day of learning.

Our credit union's support of nutrition programs began in 2014 and represents a commitment of close to \$2 million to ensure students across our regions have access to healthy snacks and breakfasts while at school. The shift from in-class learning to at-home learning changed the way the student nutrition program was delivered during the first half of the school year. FirstOntario worked closely with our partner agencies to ensure students had access to healthy food while learning from home. Our support ensured almost 18,000 children and their families continued to receive much needed support from student nutrition programs. In September, our dedicated employee volunteers began once again to provide hands-on support to 57 schools with farm-to-school and food box delivery ensuring students received a healthy start to a day of learning.



**\$2 million in total support
\$250,000 donated in 2021**



18,000 Students Helped



57 Schools

AGENCIES WE SUPPORT



INVESTING IN AFFORDABLE HOUSING

Access to affordable housing remains an important indicator of the health of the community.



Our collaboration with Penn Terra Group Limited and Bethlehem Housing and Support Services created a residential complex for 127 families and offered safe, clean long term (guaranteed 99 years) affordable housing in St. Catharines.

Our ongoing commitment to these families and the important work of Bethlehem Housing and Support Services was reinforced when Blue Wave volunteers helped serve a take-out turkey dinner and dessert for residents. This successful partnership is supporting our work with other municipal governments and private enterprise to have an impact on this issue in other communities.

INVESTING IN SPORTS & CULTURE

Cultural events and sporting programs enrich community life for everyone and our support creates a strong and meaningful connection to our communities.

Supporting Community Engagement Through Sports

FirstOntario engaged with our sports partnerships to support important local organizations in the community, when we were able to gather safely. Our unique FirstON the Field initiative during Tiger-Cat games donated funds and created awareness of local agencies working to help people in our communities. Much needed donations were also made in collaboration with the Forge FC and the United Way Halton and Hamilton. Our Blue Wave volunteers were also excited to support the Tiger-Cats during the Grey Cup Game. These are just a few examples of how we created profile and engagement for our many community partnerships.



**Hamilton
Tiger-Cats**



**Hamilton Bulldogs and
Bulldogs Foundation**



Hamilton Forge FC



**Toronto Rock Lacrosse
(playing out of
FirstOntario Centre)**

FirstOntario Community Venues

We work with our partners to make connections that support like-minded community organizations.

Through four venues in three great cities, we make a difference with our partnerships by reinvesting our profits into the neighbourhoods where our members work and play.



FirstOntario Performing Arts Centre, St. Catharines



FirstOntario Centre, Hamilton



FirstOntario Arts Centre, Milton



FirstOntario Concert Hall, Hamilton

Celebrating Youth and Community

FirstOntario is a proud sponsor of the Niagara 2022 Canada Summer Games and is very excited to host the rest of Canada in Niagara. We are sponsoring two of the torch relays leading up to the Games and the 13 for 13 Cultural celebration.

We look forward to welcoming visitors and cheering on our young Canadian athletes from August 6 to 21, 2022.

**NIAGARA
2022**



**JEUX DU
CANADA
GAMES**



**5,000
Athletes**

**4,000
Volunteers**

INVESTING IN LOCAL BUSINESS

The 1Awards is an annual celebration of the businesses that make our community unique.



Congratulations to the 2021 winners!



We believe in supporting our local businesses that make our neighbourhoods feel like home and we want to be there for them. FirstOntario and 1Awards partners have invested more than \$1.6 million into its business communities. Winners share cash and in-kind services so they can continue to offer the products and services our communities depend on and get to the next level. After postponing the event last year, in 2021 the 1Awards competition returned virtually, putting a spotlight on the small business landscape in the Hamilton, Halton, Brant and Niagara regions by offering cash and in-kind services to help businesses thrive.

IN 2021

OVER \$130,000 AWARDED | 50 APPLICANTS, 10 FINALISTS | 4 WINNERS

MAKING A DIFFERENCE

We are committed to the co-operative principal of concern for community. Our credit union supports initiatives designed to improve the lives of our members and our communities, and we strive to be a hands-on contributor in their success.

Our contributions are made through more ways than just donations and sponsorships. Even though the pandemic presented us with a number of challenges in 2021, we strengthened our support through a variety of programs and initiatives that made a difference to our community.



FirstOntario
CREDIT UNION

Over
\$100,000
given to
Food Banks

1Awards
– more than
\$130,000 in
prizes and in-
kind support

\$250,000
given to Student
Nutrition
Programs

\$13,000
given to
Education
Awards

491
total Blue
Wave hours in
2021

\$10,000
food insecurity
support on
behalf of
Creative Arts
Financial

\$40,000
given to the
United Way

FINANCIAL HIGHLIGHTS

Overview

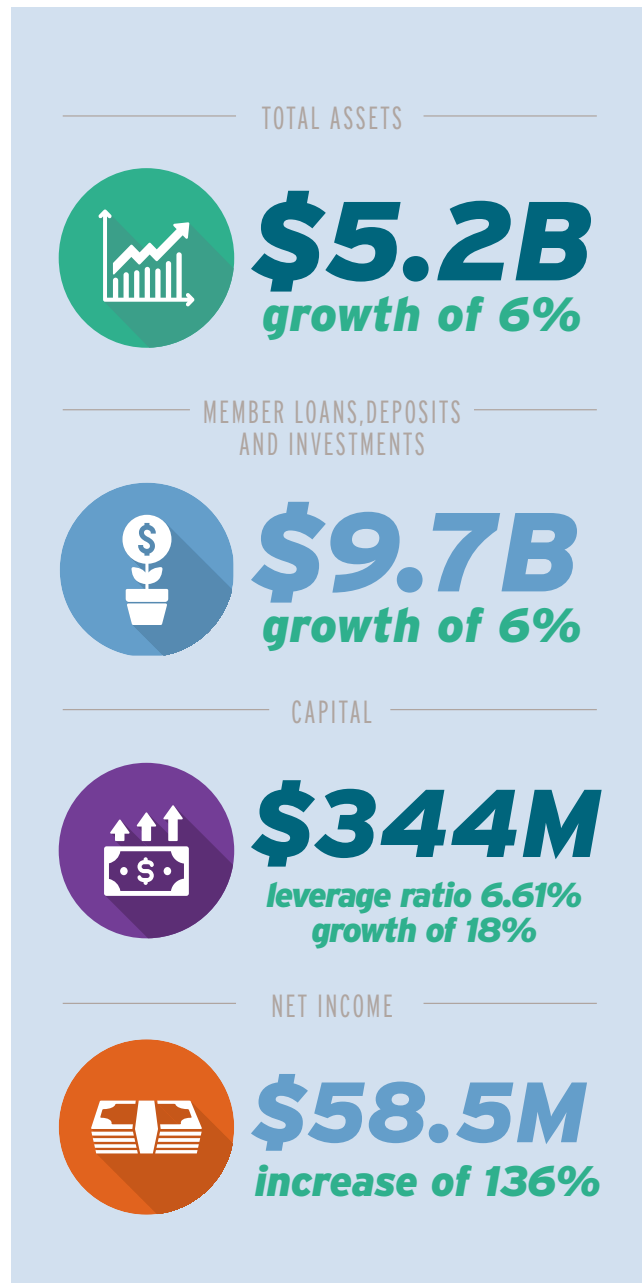
FirstOntario continued to be agile during 2021 as our governments and public health managed through the ever-changing face of the COVID-19 pandemic. Throughout this pandemic we continued to be there for our members, providing financial services through our branches, digitally and over the phone, while keeping employees and members alike as safe as possible. During 2021, employment rates trended towards pre-pandemic levels and Gross Domestic Product improved, however, economic trends continued to be impacted in the short-term due to changes in public health measures implemented in response to the pandemic trends. Throughout the year, there continued to be strength in the housing markets and interest rates remained low while the economy recovered. FirstOntario has continued to build on our successes to remain a strong and viable credit union supported by the trust and commitment of our members, communities, and partners.

During 2021, Assets Under Management (AUM) grew by almost 2% (2020, 1% decline), ending the year at \$5.9 billion. AUM include on and off-balance sheet member loans, member deposits, member investments managed by our Wealth Advisors and member investment shares.

Our financial model is designed to have many different sources of revenue. This focus on diversifying revenues continues to enhance our ability to generate profitability over the long-term and helps to safeguard FirstOntario as our capital levels increase.

During 2021, profitability increased our core sources of income to historic levels, which include retail and commercial lending as well as deposit-taking and other financial services.

Our portfolio of alternative investments enables us to grow our non-margin income, affording us additional income to provide expanded financial



services to our members. The alternative investment portfolio achieved a return exceeding 23%, resulting from an improved economy, strong housing market and increased demand for industrial real estate.

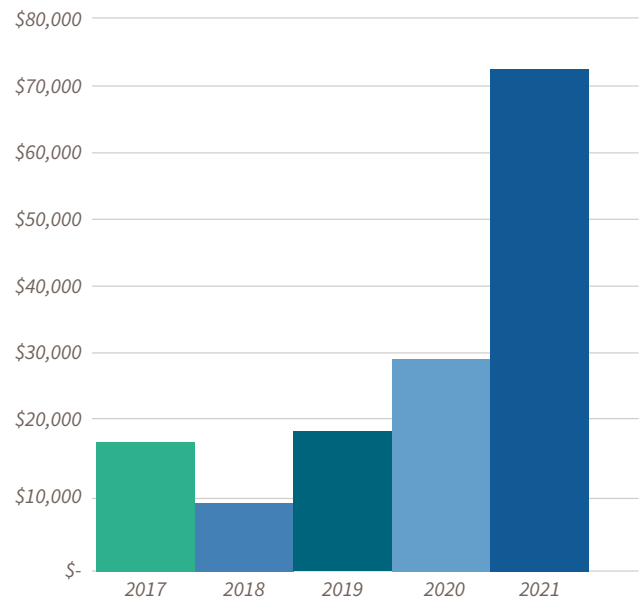
During 2021, FirstOntario:

- Launched a new suite of chequing accounts - "The Everyday Convenience Account"
- Expanded our digital banking options
- Reintroduced blend and extend mortgage options to assist members in refinancing their houses to fund renovations, consolidate debt and other purposes
- Renovated our Brantford branch
- Opened a new location for our Member Service Centre to provide extended phone-based services
- Continued to manage expenses and created efficiencies to enhance the core components of profitability.

These activities resulted in FirstOntario generating record income in 2021, ending the year with an improved financial position and capital ratios.

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

Pre-Tax Income
(in thousands of dollars)



Our 2021 pre-tax income was \$73.0 million (2020, \$29.1 million); an increase of \$43.9 million over 2020. Revenue increased 41.75%, partially offset by expenses increasing 4.5%.

During 2021, net interest and other income was \$161.7 million (2020, \$114.0 million), an increase of \$47.7 million. Net interest income increased \$12.3 million, operational non-margin income increased \$1.4 million, alternative non-margin income increased by \$29.0 million, and a lower provision for expected credit (loan) losses. Expenses increased by \$3.8 million to \$88.6 million (2020, \$84.9 million). Salaries and benefits increased by \$1.7 million, technology costs increased by \$1.9 million with the remaining expenses increasing by \$0.2 million.

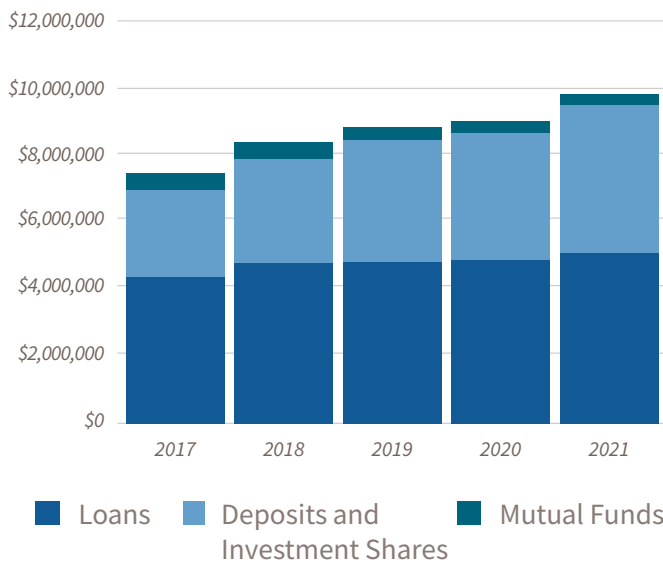


Funds Under Management

At FirstOntario, we exist to help our members meet their financial needs by providing credit, deposit, and investment services. A key indicator of our success is the total loans, deposits, and investments members have with us. These are called our Funds Under Management (FUM). Our FUM growth was 5.7% (2020, 3.4%), increasing to \$9.7 billion.

Funds Under Management

(in thousands of dollars)



Members entrusted us with an additional \$0.5 billion (2020, \$0.3 billion) in loans, deposits, and investments in 2021. FirstOntario's loan portfolio increased \$107.0 million (2020, \$19.0 million decrease) or 2.2% throughout the year. Loans are funded by member deposits and external funding partners. Member deposits and investment shares grew by \$355.5 million (2020, \$373.8 million) or 8.6%. Finally, our members' mutual fund holdings increased by \$53.9 million (2020, \$50.1 million) or 17.3%.



Loans Payable and Securitization Liabilities

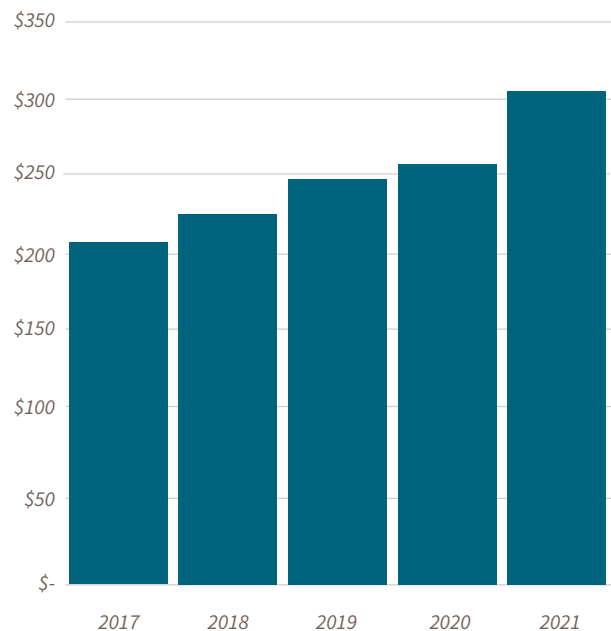
During the year, loans payable and securitization liabilities decreased by \$108.0 million to \$422.0 million (2020, \$530.0 million) due to deposit growth and low loan growth.

Member Equity

Member equity increased to \$314.2 million (2020, \$260.0 million), a growth of \$54.2 million (20.8%). Retained earnings, contributed surplus, and accumulated other comprehensive income make up 65% (2020, 57%) of member equity.

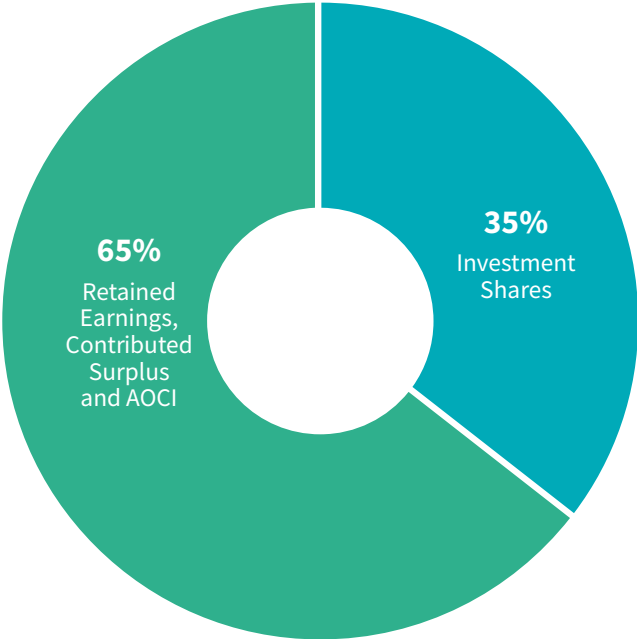
Member Equity

(in millions of dollars)



Growth in 2021 came from net earnings as well as an increase in our Accumulated Other Comprehensive Income (AOCI).

Member Equity
December 31, 2021



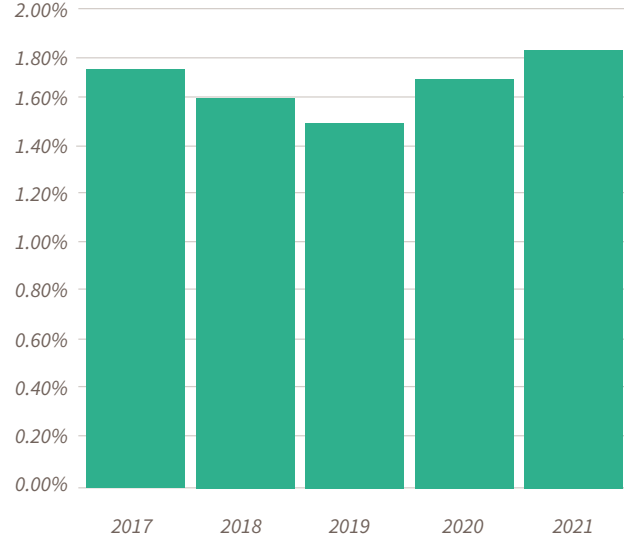
Net Interest Income

Net interest income is the difference between interest paid by members on loans and interest earned on our liquidity reserve deposits less interest paid to members on their deposits and interest paid on outside debt obligations. FirstOntario derived 57% (2020, 66%) of its gross revenue from net interest income. The ability to grow net interest income is primarily dependent upon growth in member loans and deposits.

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

Net interest income increased by 15% due to positive exposure to low interest rates as members continued to take out 5-year mortgages while keeping their deposits liquid, attracting low interest rates.

Net Interest Income
(% of Average Assets)



Other Income - Operations and Alternative Initiatives

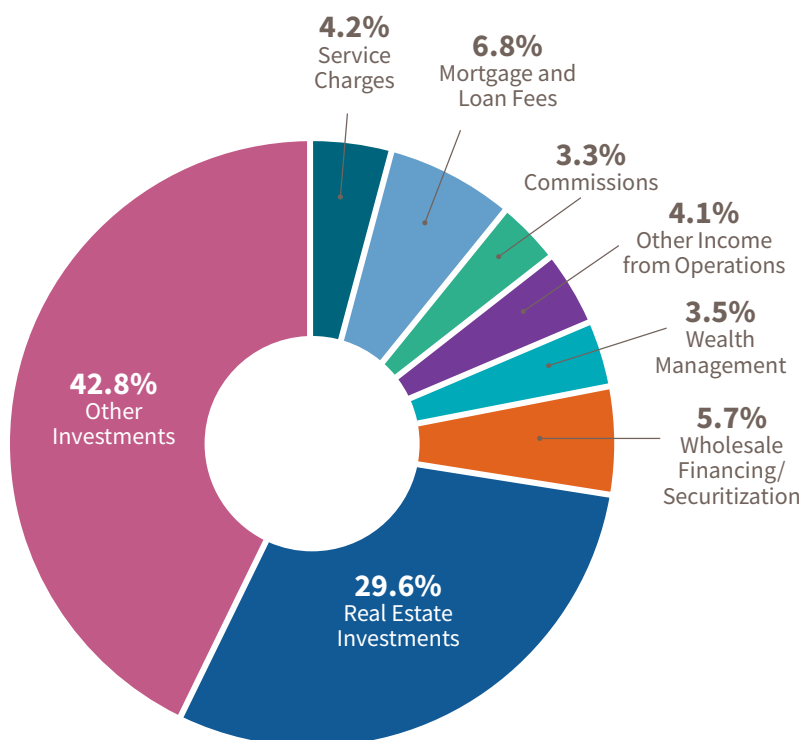
Other income increased to \$69.0 million (2020, \$38.9 million), which is a return on average assets of 1.36% (2020, 0.81%). Our peer credit unions in Ontario average 0.40%. As a percentage of total revenues, other income is 43% (2020, 34%).

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

In Thousands of Dollars	Year Ended December 31, 2021		Year Ended December 31, 2020	
	Income	Mix	Income	Mix
Operations				
Service Charges	\$ 2,885	4.2%	\$ 3,736	9.5%
Mortgage and Loan Fees	4,693	6.8%	4,695	12.1%
Commissions	2,303	3.3%	2,222	5.7%
Other	2,849	4.1%	701	1.8%
Alternative				
Wealth Management	2,421	3.5%	2,696	6.9%
Wholesale Financing/Securitization	3,967	5.7%	9,295	23.9%
Real Estate Investments	20,492	29.6%	4,450	11.5%
Other Investments	29,624	42.8%	11,067	28.6%
Total Other Income	\$ 69,234	100.0%	\$ 38,862	100.0%

Other Income

12 months ended December 31, 2021



Operational other income increased this year from \$11.4 million to \$12.7 million (11.4%), largely due to a gain on sale of our Niagara Street branch of \$1.6 million, offset by lower service charge and other transactional revenue.

Our financial model emphasizes growing non-margin income and includes wealth management. These models utilize the wholesale financing markets associated with mortgage-backed securities contained within programs sponsored by the Canada Mortgage and Housing Corporation (CMHC), real estate investments that include property development projects, multi-residential and retail commercial complexes and equity investments in public and private markets. Income from these sources increased by \$29.0 million to \$56.5 million (2020, \$27.5 million), largely due to increases in revenue from our real estate and other investments as a result of improvements in applicable sectors of the economy.

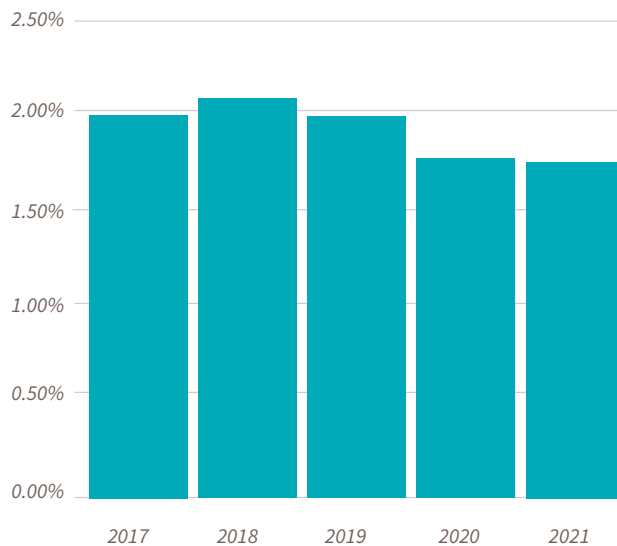
In addition, FirstOntario enters into transactions in the normal course of business by transferring recognized financial assets directly to third parties or Special Purpose Entities (SPE's). FirstOntario securitizes mortgage-backed securities through programs sponsored by CMHC and other third-party programs. In situations where FirstOntario transfers substantially all the risks and rewards of ownership, de-recognition of that asset occurs. In some cases, FirstOntario retains the rights to certain cash flows related to these de-recognized assets, which are recorded in other income. As a result of lower market spreads, and structural changes in the marketplace for CMHC sponsored securitization platforms, wholesale financing/securitization declined to \$4.0 million (2020, \$9.3 million).

Operating Expenses

In 2021, FirstOntario's operating expenses were \$88.6 million (2020, \$84.9 million). Financial institutions also measure operating expenses as a percentage of average assets. As financial institutions grow their assets, expenses assessed as a percentage of average assets should decline. During the year, our operating expenses decreased to 1.75% (2020, 1.78%).

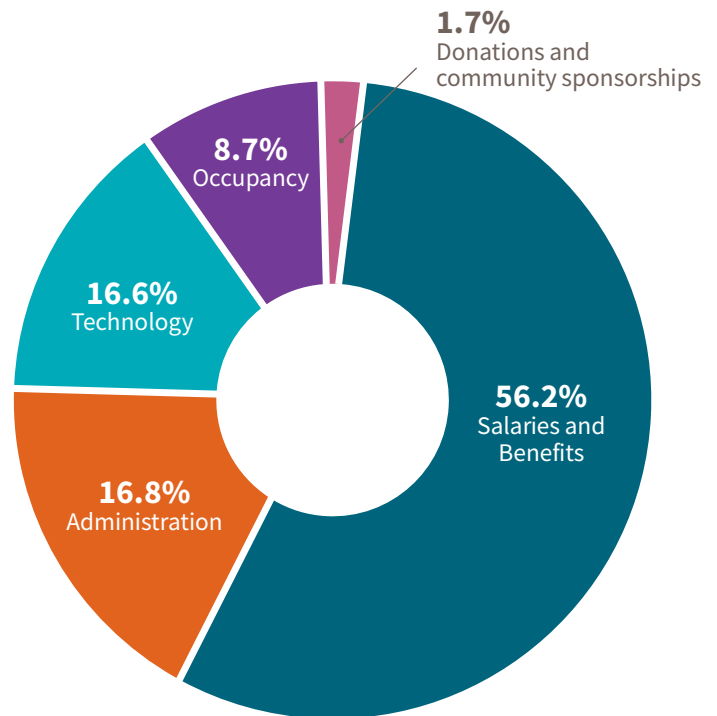
Non-Interest Expenses

(% of Average Assets)



Non-Interest Expenses

12 months ended December 31, 2021



Employee salaries and benefits for 2021 were \$49.8 million (2020, \$48.1 million). Salaries and post-employment benefits increased by 3.54%. Employee benefit costs increased by 3.94% as medical and dental benefit utilization returned to normal levels. As a percentage of average assets, FirstOntario's employee salaries and benefits expenses were 0.98% (2020, 1.01%).

Other operating expenses were \$38.9 million (2020, \$36.8 million), an increase of 5.3%. This increase was mainly due to increases in technology expenses, donations and community sponsorships, which were offset by lower occupancy and administration costs. As a percentage of average assets, FirstOntario's other expenses were 0.77% (2020, 0.77%).

Loan Portfolio

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

In Thousands of Dollars	December 31, 2021		December 31, 2020	
Total Loan Portfolio	\$4,858,093		\$4,751,405	
	Growth	Portfolio Mix	Growth	Portfolio Mix
Personal Loans	2.0%	2.0%	-8.4%	2.0%
Residential Mortgage Loans	1.4%	78.4%	-0.9%	79.0%
Commercial Loans	5.7%	19.6%	2.7%	19.0%
Total	2.2%	100.0%	-0.4%	100.0%

Growth continued in our residential mortgage loan portfolio through our branches and our continued focus on building relationships with mortgage brokers. New members joining FirstOntario through mortgage brokers are introduced to FirstOntario's full suite of financial services.

In 2021, our commercial loan portfolio increased by 5.7% (2020, 2.7%). We continued to use a cautious approach to attracting new commercial members, keeping in mind the current economic challenges. Net provisions for additional commercial loan losses of \$0.8 million were recorded for the commercial loan portfolio which included \$21.1 million in impaired loans. Over the past five years, FirstOntario's commercial loan write-offs averaged 0.18% of our commercial loan portfolio.

Commercial loans are generally secured by mortgages on land and buildings. The geographic and industry diversification within our commercial portfolio continues to improve. As of December 31, 2021, 19% (2020, 18%) of the on-balance sheet loan portfolio is associated with five of our largest

commercial members. Commercial loans are well secured with average outstanding loan balances at 41.5% of the value of security as determined by qualified appraisers.

Approximately \$216.0 million (2020, \$146.0 million) in residential mortgages was securitized in 2021. Securitization levels are dependant upon targeted liquidity metrics, funding available from deposits and the availability of insured and insurable mortgages.

Allowance for Expected Credit (Loan) Losses

The allowance for Expected Credit Losses (ECL) is governed by Board policy, reviewed on an annual basis, and approved by the Audit & Risk Committee of the Board. In compliance with IFRS 9 – Financial Instruments, the allowance is determined on an "expected credit loss" basis. The allowance is set up on loan origination. FirstOntario uses an advanced data analytics model, as required by IFRS 9, which utilizes FirstOntario's detailed loan level historical data, industry data and macro-economic data to calculate the allowance. Watch List accounts, delinquencies, credit quality and member bankruptcies are used by the model. The provision for ECL is monitored to ensure compliance with Board policy and regulatory requirements.

During 2021, the economy began to recover from the significant economic recession experienced in 2020. While our loan portfolio performed well during this period, we continued to underwrite loans with an abundance of caution. In particular, the effect of government support on retail borrowers and the commercial sector during 2020 and 2021 positively impacted our credit portfolio results. While there are indications the pandemic is transitioning to an endemic state, there is uncertainty associated with the unwinding of government support structures, the impacts of expected interest rate increases and future inflation. As a result, we continued to establish the year-end allowance with a conservative view.

The following chart provides a summary of our allowance for ECL. FirstOntario's loan portfolio continues its strong performance, outperforming industry norms.

<i>Amounts in Thousands</i>	Dec 31, 2021	Dec 31, 2020
On Balance Sheet Loan Portfolio	\$ 4,584,572	\$ 4,256,777
Allowance for ECL		
Stage 3	\$ 4,238	\$ 1,324
Stage 1 and 2	6,228	8,713
	\$ 10,466	\$ 10,037
Annual provision for ECL		
	\$ 786	\$ 5,970
Net Write-offs	\$ 357	\$ 4,419
Impaired loans net of related security		
Impaired loans	\$ 31,071	\$ 23,846
Related security less expected costs	26,832	22,522
	\$ 4,239	\$ 1,324
Delinquency > 90 Days	0.02%	0.27%
% of Loan Portfolio Allowance for ECL		
Stage 3	0.09%	0.03%
Stage 1 and 2	0.14%	0.20%
	0.23%	0.24%
Provision for impaired loans	0.02%	0.14%
Net Write-offs	0.01%	0.10%
Impaired Loans	0.68%	0.56%

Our gross impaired loans increased to \$31.1 million (2020, \$23.8 million) and is attributed to commercial loans. While there are impaired commercial loans, the commercial loan portfolio has a 0.03%, 30-day delinquency (2020, 0.90%). FirstOntario holds security related to these loans in the amount of \$26.8 million (2020, \$22.5 million). Our overall 90-day delinquency decreased to a historic low of 0.02% (2020, 0.27%).

FirstOntario uses an internal risk rating grid to assess and monitor our loan portfolio as well as new loans, both in retail and commercial. The majority of FirstOntario's retail loan portfolio, 93% (2020, 89%), has a risk rating of "B" or better. The commercial portfolio has 98% (2020, 98%) of loans rated as Satisfactory or Superior. These measures and the performance of the loan portfolio indicate FirstOntario has a very strong lending operation.



Investments

FirstOntario's investment portfolio is divided into two main categories, alternative non-margin income (alternative) investments and Liquidity and other statutory investments. Liquidity investments consist of marketable securities and are required in order to ensure we meet regulatory liquidity guidance expectations. Statutory investments are required to be a member of Central 1.

<i>Amounts in Thousands</i>	<u>2021</u>	<u>2020</u>
Alternative Investments		
Managed Funds and Other	\$ 151,636	\$ 108,435
Real Estate Joint Ventures	109,099	97,679
Loans	5,425	11,912
Retained Rights - loan securitizations	41,528	15,793
	<u>307,688</u>	<u>233,819</u>
Liquidity and Statutory Investments		
Marketable Securities	182,535	-
Liquidity Reserve Deposits	-	304,322
Shares - Central 1	5,488	19,611
	<u>188,023</u>	<u>323,933</u>
Other Investments		
	2,221	2,140
	<u>\$ 497,932</u>	<u>\$ 559,892</u>

Alternative investments as at December 31, 2021 represent 5.92% (2020, 4.75%) of total assets. Managed funds are a diversified portfolio of investments actively managed by external Investment Advisors. FirstOntario has entered into agreements to jointly own and develop retail mall complexes and develop multi-tenant residential properties. Retained rights are associated with our wholesale financial market transactions involving securitized insured mortgages.

During 2020, our statutory investments included liquidity reserve deposits required by the member credit unions of Central 1, equalling 6% of FirstOntario's assets. On January 4, 2021, FirstOntario was required to liquidate this portfolio and received marketable securities as a consideration.

Investment in Affiliates

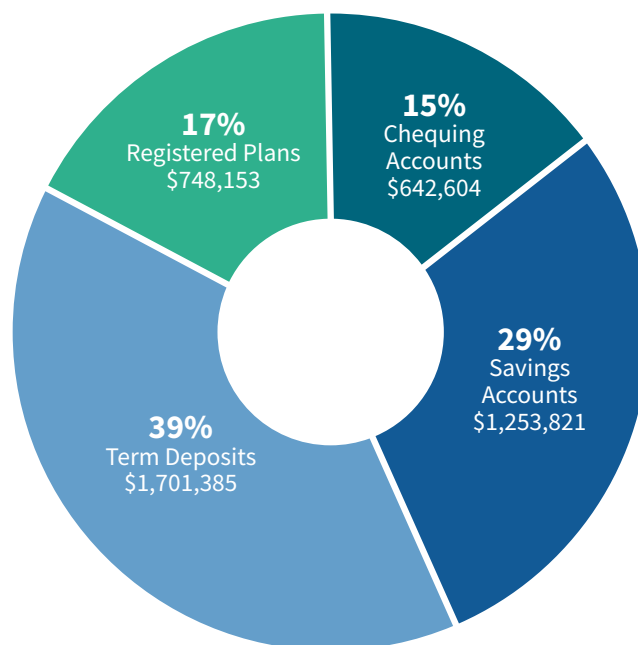
FirstOntario is a member of Central 1 Credit Union. Central 1's primary function is to provide access to the Canadian payments system and offer digital banking platform services for use by its member credit unions.

Deposit Portfolio

FirstOntario grew its deposit base by 9.0% (2020, 10.3%). Term deposit accounts decreased by 2.9%, savings accounts increased by 29.0%, chequing accounts grew by 25.0% and registered plans decreased by 0.3%. The current average cost of member deposits is 1.21% (2020, 1.69%). As of December 31, 2021, 15.6% (2020, 16.4%) of deposits were sourced from deposit brokers with the portfolio having 47% (2020, 51%) maturing beyond the next 12 months.

Deposits

December 31, 2021 (in thousands of dollars)



Risk Management

FirstOntario's Board of Directors is responsible for the oversight of FirstOntario's risk management. The Board sets FirstOntario's philosophy, policies, procedures and controls to manage operational risk. The Board's Audit & Risk Committee responsibilities in risk management include:

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



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

Enterprise Risk Management

Enterprise Risk Management (ERM) provides a process to identify, measure, treat and report on significant risks within FirstOntario. ERM is a discipline that helps FirstOntario achieve its strategic plan objectives within the Board of Director's approved risk appetite.

During 2021, the Audit & Risk Committee reviewed and discussed FirstOntario's complete inventory of risks, paying special attention to significant (i.e. top 10) and emerging risks. The Audit & Risk Committee also reviewed the process Management went through to document and rate the effectiveness of the controls in place to reduce inherent risks within the credit union.

Through our Internal Audit department, FirstOntario conducted testing of documented controls to provide a level of independence and assurance that the controls as stated are effective. FirstOntario takes both integrative and holistic approaches to managing and mitigating identified risks.

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

Credit Risk

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

FirstOntario's lending philosophy is established by its Board-approved Credit Risk Management Policy.

Our Credit Risk Management Policy provides detailed guidance to Management that includes:

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

Interest Rate Risk

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

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

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

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

Liquidity Risk

FirstOntario is required by the Credit Unions and Caisses Populaires Act, 1994 to maintain certain levels of liquidity. Under the regulations, FirstOntario must establish and maintain sensible levels of liquidity that are sufficient to meet its cash



flow needs, including deposit withdrawals and all other obligations as they come due. FirstOntario complies with this requirement through its Board approved Liquidity Risk Management Policy. This policy addresses limits on the sources, quality and the amount of liquid assets needed to meet normal operations, contingency funding for significant deposit withdrawals and regulatory requirements.

To ensure FirstOntario continually maintains the minimum liquidity levels, Management measures and monitors liquidity levels on a regular basis. As set by Board policy, FirstOntario's operational liquidity as a percentage of deposits and borrowings is to be maintained at a minimum of 8%. Generally, Management targets liquidity levels in the 9% to 13% range, allowing FirstOntario to balance liquidity risk



and net interest income returns. When liquidity levels decrease or are forecasted to decrease close to minimum levels, steps are taken to restore liquidity levels. Management also prepares detailed monthly and three-month cash flow forecasts. If there is any risk of liquidity dropping below the policy minimum of 8%, a plan for corrective action is developed and implemented. As of December 31, 2021, FirstOntario's liquidity ratio was 13.63% (2020, 13.90%).

To ensure FirstOntario has adequate sources of liquidity, Management has developed a liquidity plan, which sets out various liquidity sources. Our primary liquidity source comes from member deposits. FirstOntario also has three external liquidity sources. These sources include funding from deposit brokers,

securitization of residential mortgage loans through the issuance of Mortgage Backed Securities and Canada Mortgage Bonds and the sale of commercial mortgage loans through other credit unions and other credit union affiliated partners. As part of our contingency liquidity plan, FirstOntario has \$264.7 million available in operating loan facilities with Central 1 Credit Union and Caisse Centrale Desjardins. On December 31, 2021, the outstanding balance was \$nil (2020, \$30 million). These loans are generally used to fund mortgages until they are securitized, at which time the loans are replaced by long-term debt associated with the securitization.

In addition to the above, FirstOntario also uses the Liquidity Coverage Ratio (LCR) to manage and monitor liquidity risk levels. The LCR quantifies the proportion of highly liquid assets held by FirstOntario relative to the riskiness of its modeled deposit and other liability cash flow. The LCR stress-tests the balance sheet over a 30-day period to ensure adequate liquidity is held. As at December 31, 2021, FirstOntario's LCR ratio was 210%, more than double the regulatory minimum of 100%.

Foreign Exchange Risk

FirstOntario members have the opportunity to buy and sell U.S. dollars (cash, cheques and drafts). In addition, FirstOntario provides members with U.S. dollar deposits (chequing, savings and short-term deposits). Through our portfolio of Alternative Investments, FirstOntario holds a diversified set of investments that are denominated in U.S. dollars, and is similarly exposed to foreign exchange risk. By providing foreign currency services and holding U.S. dollar investments, FirstOntario is exposed to foreign exchange risk, which is the risk to income that could result from changes in U.S. currency rates.

To measure and control our exposure to U.S. currency risk, FirstOntario tracks the net U.S. position (U.S. dollar assets less U.S. dollar liabilities) daily. Within our Liquidity Risk Management Policy, the maximum U.S. currency exposure FirstOntario can take is less than or equal to 3.0% of total deposit liabilities and 10.0% of alternative assets denominated in U.S. Dollars. Management operates on a day-to-day basis at a lower limit of between \$200,000 and \$300,000.



Capital Risk Management

Capital is monitored monthly on both a capital leverage and a risk-weighted basis. During 2021, FirstOntario conducted an Internal Capital Adequacy Assessment Process (ICAAP) incorporating a new model that utilizes industry best practices in evaluating capital in light of a financial institution's risk inventory. In general terms, the ICAAP is an assessment of FirstOntario's risk profile and determines if FirstOntario has enough capital to support that risk profile. The ICAAP includes a three-year financial forecast and is an important component of the annual planning process. Future capital requirements are based on planned asset growth, alternative investments and fixed asset acquisition plans. The ICAAP indicates FirstOntario's capital levels are \$0.7 million above the ICAAP and ERM risk requirements.

The following chart summarizes FirstOntario's capital position for 2021 and 2020:

<i>In Thousands of Dollars</i>	<u>Dec 31, 2021</u>	<u>Dec 31, 2020</u>
Capital	\$ 343,693	\$ 292,542
Leverage ratio	6.61%	5.94%
Minimum regulatory limit	4.00%	4.00%
Risk Weighted ratio	13.55%	12.90%
Minimum regulatory limit	8.00%	8.00%
Tier 1 Capital	\$ 327,454	\$ 275,063
% of Total Capital	95.28%	94.03%
Tier 2 Capital	\$ 16,239	\$ 17,479
% of Total Capital	4.72%	5.97%

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

On both the leverage and risk-weighted ratio basis, capital is well in excess of regulatory minimums. In addition, FirstOntario's Tier 1 capital was 95% on December 31, 2021 and is well in excess of the regulatory minimum of 50%.

Summarized Consolidated Statement of Financial Position

December 31, 2021 with comparative figures for December 31, 2020 to December 31, 2017

(amounts in thousands)	2021	2020	2019	2018	2017
Assets					
Loans to members	\$ 4,594,142	\$ 4,266,253	\$ 3,996,068	\$ 3,609,006	\$ 3,393,395
Cash	34,638	26,892	25,712	62,317	43,098
Investments	497,932	559,892	540,122	495,853	408,296
Fixed assets	52,790	56,105	57,700	39,109	38,201
Other assets	14,568	11,079	8,392	6,109	5,899
Derivative assets	5,211	2,140	1,648	443	1,383
	\$ 5,199,281	\$ 4,922,361	\$ 4,629,642	\$ 4,212,837	\$ 3,890,272
Liabilities and Members' Equity					
Members' Deposits and Shares	\$ 4,380,520	\$ 4,034,238	\$ 3,659,537	\$ 3,332,404	\$ 2,820,396
Loans payable and securitization liabilities	421,736	529,999	652,340	608,088	802,382
Other liabilities	80,849	95,491	78,002	45,573	49,660
Derivative liabilities	1,969	2,582	1,211	1,195	1,329
Investment shares	110,476	112,293	110,261	106,934	104,208
Retained earnings and contributed surplus	208,896	154,006	132,257	121,649	116,188
Accumulated other comprehensive loss	(5,165)	(6,248)	(3,966)	(3,006)	(3,891)
	\$ 5,199,281	\$ 4,922,361	\$ 4,629,642	\$ 4,212,837	\$ 3,890,272

Summarized Consolidated Statement of Income

December 31, 2021 with comparative figures for December 31, 2020 to December 31, 2017

(amounts in thousands)	2021	2020	2019	2018	2017
Interest Income	\$ 157,779	\$ 168,942	\$ 151,742	\$ 132,950	\$ 124,751
Interest Expense	64,321	87,800	86,053	68,036	57,985
Net Interest Income	93,458	81,142	65,689	64,914	66,766
Provision for impaired loans	(786)	(5,970)	(3,297)	(2,445)	(1,642)
Other income	68,974	38,862	42,447	31,418	26,567
Net Interest and Other Income	161,646	114,034	104,839	93,887	91,691
Operating Expenses					
Salaries and employee benefits	49,775	48,075	51,152	46,504	41,096
Administrative	14,885	15,224	15,188	17,856	15,847
Technology	14,718	12,825	11,556	11,084	9,533
Occupancy	7,728	8,210	8,116	7,485	7,190
Donations and community sponsorships	1,531	530	1,436	1,550	1,380
Total Operating Expenses	88,637	84,864	87,448	84,479	75,046
Income Before Income Taxes	73,009	29,170	17,391	9,408	16,645
Income Taxes	14,553	4,407	3,247	1,339	3,434
Net Income for the Period	\$ 58,456	\$ 24,763	\$ 14,144	\$ 8,069	\$ 13,211

Certain comparative information has been reclassified to conform to the financial statement presentation adopted in the current year. Further detailed information on our 2021 financial results can be found in our 2021 Annual Report available online at [FirstOntario.com](https://www.firstontario.com/about-us/governance/our-annual-reports) (<https://www.firstontario.com/about-us/governance/our-annual-reports>).



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