FirstOntario
CREDIT UNION

Serial Number: WEBSITE COPY

This offering statement must be delivered to every purchaser of the securities described herein prior to the purchaser becoming obligated to complete the purchase and, upon request, to any prospective purchasing member.

No official of the Government of the Province of Ontario has considered the merits of the matters addressed in this offering statement.

The securities being offered are not guaranteed through the Financial Services Regulatory Authority of Ontario or any similar public agency.

The prospective purchaser of these securities should carefully review the offering statement and any other documents it refers to, examine in particular the section on risk factors beginning on page 34, and, further, should consult a financial or tax advisor about this investment.

FirstOntario Credit Union Limited

Offering Statement

March 31, 2023

Minimum $10,000,000 — Maximum $100,000,000
Class B Special Shares, Series 2023
(Non-Cumulative, Non-Voting, Non-Participating Special Shares)
("Class B Shares, Series 2023")

The subscription price for each Class B Share, Series 2023 will be $1.00 per share, with a minimum of 1,000 shares per member which may be subscribed for $1,000, to a maximum of 500,000 shares per member which may be subscribed for $500,000.

There is no market through which these securities may be sold. Transfers of the shares may generally only occur to other members of the Credit Union, and all other transfers are prohibited.

The purchaser of these securities may reverse his/her decision to purchase the securities if he/she provides notice in writing, or by facsimile, or by e-mail in combination with a telephone call, to the person from whom the purchaser purchases the security, within two days, excluding weekends and holidays, of having signed a subscription form.

The Class B Shares, Series 2023 are subject to the transfer and redemption restrictions under the Credit Unions and Caisses Populaires Act, 2020 and the restrictions under this offering statement as set out on pages 33 and 34.

The securities offered are not deposits. The securities offered are not insured. The dividends on the securities are not guaranteed.

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Offering Statement Summary

The following is a summary only and is qualified in its entirety by the more detailed information appearing elsewhere in this offering statement. A "Glossary of Terms" can be found at the end of this summary, prior to the detailed offering statement.

FirstOntario Credit Union Limited

The Credit Union was formed by the amalgamation, on August 31, 1999, of Avestel Credit Union Limited ("Avestel") and Family Savings and Credit Union (Niagara) Limited ("Family Savings"). Avestel was itself created by amalgamation on December 1, 1996, amalgamating the former Avestel Credit Union Limited (which had been incorporated in 1940 as the Stelco Employees Credit Union (Hamilton Works) Ltd.) and CUNA of Ontario Credit Union Limited. Family Savings was incorporated on October 20, 1949 as St. Catharines Auto Workers' Credit Union Limited, and initially served the employees of General Motors. The Credit Union's head office is located at 970 South Service Road, Suite 301, Stoney Creek ON L8E 6A2.

The Credit Union, itself or through its predecessor credit unions Avestel and Family Savings, has previously made five offerings of investment shares. Additionally, the Credit Union has issued two additional series of Class B Shares, being Series 2013 and Series 2020, to facilitate the acquisition of other credit unions.

The Credit Union has three wholly-owned subsidiaries: FirstOntario Insurance Holdings Inc., FirstOntario Credit Union Realty Corporation and FirstOntario Credit Union GP Corporation.

FirstOntario Insurance Holdings Inc. is a holding company which manages the Credit Union's 51% interest in FirstOntario Insurance Brokers Inc., an Ontario-licensed insurance brokerage.

FirstOntario Credit Union Realty Corporation owns interests in various real estate joint ventures, whether common shares (including of a corporate general partner) or limited partnership units, on behalf of the Credit Union.

FirstOntario Credit Union GP Corporation acts as the general partner in various real estate joint ventures carried on through limited partnerships (since the Act prevents the Credit Union acting as general partner directly), in which FirstOntario Credit Union Realty Corporation owns all the limited partnership units.

The financial results of all subsidiaries are consolidated with those of the Credit Union in the preparation of the Credit Union's consolidated audited financial statements ("audited financial statements") each year (December 31). Included in Appendix A is the audited financial statements for the year ended December 31, 2022.

The Credit Union also operates largely digitally under the business names "Saven Financial, a division of FirstOntario Credit Union Limited" ("Saven Financial") and "Creative Arts Financial, a division of FirstOntario Credit Union Limited" ("Creative Arts Financial"). Creative Arts Financial was created October 31, 2020, when the Credit Union acquired the assets of Creative Arts Savings and Credit Union Limited. Saven Financial commenced business in January 2021.

The Credit Union earns a significantly higher proportion of its revenue than seen elsewhere in the Ontario credit union system from various real estate joint ventures, and from investments in private equity and private debt (including outside Ontario and Canada) and infrastructure. For further details, see page 37.

The Credit Union serves approximately 126,000 members through 29 branches and two commercial services locations located in the Golden Horseshoe and Southwestern Ontario, through its interactive banking machines, which provide both automated teller machine and personal assisted teller services, and through its Internet, mobile and telephone banking platforms. The Credit Union provides a full range of retail and commercial credit and non-credit financial services and products.

The Credit Union is open to mergers and acquisitions with other credit unions. No formal letters of intent or any legal binding commitments have been executed as of the date hereof.

See also "Business of the Credit Union", on pages 16 to 25.

The audited financial statements attached as Schedule A hereto have been approved by the board, but not yet been presented to the members of the Credit Union for approval. This will occur at the Credit Union's annual general meeting on April 19, 2023.

Overview

With over $5.7 billion in assets and over $10.5 billion in member's funds under management, the Credit Union is the fifth largest credit union in Ontario and the sixteenth largest in Canada. The Credit Union is a full-service credit union providing a wide range of credit, investment, and financial advice.

Fiscal 2023 marks the first year of a four-year strategic plan developed in 2022. The new strategic plan builds on the critical work started in the Credit Union's last strategic plan, with a continued focus on the primary pillars of stakeholder experience, digital capabilities, and operational excellence, as well as adding the pillars of corporate relevance, embedding purpose and environment, social and governance ("ESG") issues. In the new plan, the Credit Union's journey is to become a purpose driven organization, playing a vital role in society as a strong and vibrant community-based Credit Union while addressing important ESG issues.

The Credit Union has plans and programs designed to fulfill the six strategic pillars, with two key enablers guiding this plan: risk management and change management. A comprehensive risk assessment is in place that includes compensating internal controls to avoid financial loss and negative impacts to member experience and employee confidence. Successful execution of the strategic plan is predicated on ensuring effective change management protocols are in place during all major change initiatives.

The Offering

The Credit Union offers for sale to its members, at $1.00 per share, Class B Non-Cumulative, Non-Voting, Non-Participating, Redeemable Special Shares, Series 2023 ("Class B Shares, Series 2023"), in the capital of the Credit Union. Class B Shares, Series 2023 are special, non-membership shares and constitute part of the authorized capital of the Credit Union. Subscriptions will be accepted from members of the Credit Union for a minimum of 1,000 Class B Shares, Series 2023, and a maximum of 500,000 Class B Shares, Series 2023. Class B Shares, Series 2023 are not redeemable for five years following their issuance, except when the shareholder dies or is expelled from membership in the Credit Union. All redemptions for any reason are also subject to a limit (of 10% of the number of the Class B Shares, Series 2023 issued and outstanding at the end of the prior fiscal year) on the maximum number of shares that can be redeemed in any fiscal year. If applicable law requires that any redemption be approved by the Authority, that redemption will be subject to the Authority's approval being obtained. The Credit Union may also acquire the Class B Shares, Series 2023 at the Redemption Amount, for cancellation after a period of five years following the issuance of the shares. Potential investors should note that the Act, through the rule regarding capital adequacy promulgated by the Authority under the Act's authority, permits the Credit Union to redeem or purchase for cancellation shares only if the shares are replaced with capital of at least the same quality as the shares being replaced without using a significant amount of the Credit Union's retained earnings, or the Credit Union can demonstrate to the Authority that its Regulatory Capital will remain substantially above regulatory minimum requirements. Purchasers of Class B Shares, Series 2023 who are intending to include such shares in an RRSP or RRIF contract should carefully review the redemption restrictions beginning on page 33 before proceeding. Transfer of such shares will only be affected through the Credit Union, and transfers are generally restricted to other members of the Credit Union; all other transfers are prohibited. See "Description of Securities Being Offered" on pages 30 through 34.

It is intended that the Class B Shares, Series 2023 will be issued on multiple closing dates. Subscriptions for each closing of Class B Shares, Series 2023 shall be accepted from the offer date for that offer noted in the table below (the "Offer Date") until the earlier of the:

1. Corresponding closing date noted in the table below (the "Closing Date");
2. Time that the aggregate amount of subscriptions received for Class B Shares, Series 2023 is equal to the maximum amount of $100,000,000; or
3. Date on which the board, having not received subscriptions for the maximum $100,000,000 Class B Shares, Series 2023 and noting that six months has not yet passed since the date of this offering statement, resolves to close the offering. The shares subscribed shall be actually issued on the issuance dates noted in the table below, notwithstanding the fact that, for purposes of calculating the periods of non-redeemability outlined above, but not for the purpose of pro-rating any dividend paid in the year the Class B Shares, Series 2023 are issued (for which the actual issuance date set out below will be used), the Issue Date shall be defined as the latest date on which Class B Shares, Series 2023 are actually issued pursuant to this offering statement. Notwithstanding the above, the board may consider and, if thought appropriate, declare a dividend between each Issuance Date outlined below and the immediately following Closing Date, to provide an appropriate return to those purchasing shares in that closing and any preceding closing:

Closing No.	Offer Date	Closing Date	Issuance Date
1	Offering Statement Date	June 30, 2023	July 15, 2023
2	July 1, 2023	August 31, 2023	September 15, 2023
3	September 1, 2023	October 19, 2023	November 15, 2023

No Class B Shares, Series 2023 will be issued until the minimum aggregate subscription amount received in respect of such shares is equal to at least $10,000,000. Should the minimum subscription amount of $10,000,000 not be received by a particular Closing Date, then subscriptions for Class B Shares, Series 2023 received will be deferred until the next Closing Date, and the Class B Shares, Series 2023 subscribed for will be issued at the next applicable issuance date outlined above, subject to the minimum subscription amount of $10,000,000 having been met by the next Closing Date. If the aggregate subscription amount received by the final Closing Date of October 19, 2023 is less than $10,000,000, then this offering for Class B Shares, Series 2023 will be cancelled and withdrawn without shares being issued, (in which case all funds "frozen" or held in Escrow to support subscriptions will be returned to the applicable members within 30 days thereof, with applicable interest), unless this offering has been renewed with the approval of the Chief Executive Officer of FSRA. If sales then amount to at least $10,000,000 but do not amount to $100,000,000, the Credit Union may proceed to close the offering, or apply to the Authority for a renewal of the offering for a period not exceeding six months.

The securities to be issued under this offering statement are not secured by any assets of the Credit Union and are not covered by deposit insurance or any other form of guarantee as to repayment of the principal amount or dividends. The Class B Shares, Series 2023 will qualify as Regulatory Capital, to the extent permitted and as defined in the Act.

Use of Proceeds

If fully subscribed, the gross proceeds of this issue will be $100,000,000. The costs of issuing these securities are not expected to exceed $300,000, and these costs, approximating $240,000 after applicable tax savings, will be deducted from the gross proceeds in arriving at the amount to be reported as share capital outstanding. The estimated maximum net proceeds of this offering are therefore $99,760,000. The principal use of the net proceeds, and the purpose of this offering, is to add to the Credit Union's Regulatory Capital in order to fully support the achievement of the Credit Union's strategic plan – Imagine 2026, anchored on the six pillars set out on page 5. The net proceeds will provide for the future growth, and development of the Credit Union, while maintaining a prudent cushion in the amount of Regulatory Capital above regulatory requirements.

Based on the total assets and regulatory capital at December 31, 2022, according to its audited financial statements, the Credit Union's Leverage Ratio would increase to 6.27% if this offering is minimally subscribed and to 7.68% if fully subscribed. Based upon the Credit Union's total assets as of December 31, 2022, according to its audited financial statements, this offering would support additional growth in assets of $6.5 billion if minimally subscribed, and $9.5 billion if fully subscribed, without contravening the regulatory minimum Leverage Ratio requirement of 3%.

Risk Factors

Investments in the Class B Shares, Series 2023 are subject to a number of risks, including regulatory redemption restrictions, the continuous need to maintain minimum Regulatory Capital levels, the uncertainty of payment of dividends, credit risk, market risk, liquidity risk, structural risk, operational risk, potential regulatory actions, reliance on key management, geographic risk, economic risk, and competitive risk. See "Risk Factors" on pages 34 to 46.

Dividend Policy

The dividend policy of the Credit Union's board, as it relates to Class B Shares, Series 2023 shall be to pay a dividend or dividends in every year in which there are sufficient profits to do so while still fulfilling all other Regulatory Capital, liquidity, and operational requirements. The dividend rate shall be established by the board, in its sole and absolute discretion, based on financial and other considerations prevailing at the time of the declarations, and, in particular, on the Credit Union's earnings. The board shall consider whether or not a dividend shall be declared, the rate of that dividend and the manner in which it is paid, including whether in the form of additional Class B Shares, Series 2023 in cash, shares, or partly in shares and partly in cash. The board shall consider this at least annually, and any declared dividend will be paid following each fiscal year end and before each annual general meeting of members.

There can be no guarantee that a dividend will be paid in each year. The board has defined an appropriate rate to be the greater of 6.00% or a rate which exceeds by 125 Basis Points the simple average of the yields on the monthly series of the Government of Canada 5-year bonds (CANSIM Identifier VI22540) as published by the Bank of Canada on its website, **www.bank-banque-canada.ca** during the Credit Union's fiscal year, for fiscal years ending on or before December 31, 2028. For fiscal years ending after that date, the board has defined an appropriate rate to be a rate equal to or greater than the rate which exceeds by 125 Basis Points the simple average of the yields on the monthly series of the Government of Canada 5-year bonds (CANSIM Identifier VI22540) as published by the Bank of

Canada on its website, **www.bank-banque-canada.ca** during the Credit Union's fiscal year. The Credit Union will pro-rate the dividend in the year the shares are issued. This dividend policy is subject to change or exception at any time, at the board's discretion.

Dividends paid on Class B Shares, Series 2023 will be deemed to be interest and not dividends and are therefore not eligible for the tax treatment given to dividends from taxable Canadian corporations, commonly referred to as the "dividend tax credit".

Summary Financial Information

This summary financial information should be read in conjunction with the more detailed financial statements attached hereto as Schedule A hereto, including the notes to those statements, and Management's Discussion and Analysis beginning at page 58.

SUMMARY OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(thousands of dollars)	**As at December 31, 2022**	**As at December 31, 2021**	**As at December 31, 2020**
ASSETS			
Cash and cash equivalents	$ 16,132	$ 34,638	$ 26,892
Investments in debt and equity securities, and in joint ventures	526,201	497,932	559,892
Derivative financial instruments	8,961	5,211	2,140
Loans and advances	5,144,955	4,594,142	4,266,253
Fixed assets and intangibles assets	48,530	52,790	56,105
Other, current tax assets and pension assets	18,684	14,568	11,079
Total Assets	$ 5,763,463	$ 5,199,281	$ 4,922,361
LIABILITIES			
Members' deposits and shares	$ 4,765,709	$ 4,380,520	$ 4,034,238
Derivative financial instruments	771	1,969	2,582
Secured borrowings and securitization liabilities	589,813	421,736	529,999
Other liabilities, employee benefit obligations and tax liabilities	59,876	80,849	95,491
Total Liabilities	5,416,169	4,885,074	4,662,310
MEMBERS' EQUITY			
Investment shares	108,780	110,476	112,293
Retained earnings and contributed surplus	237,997	209,046	154,197
Non-controlling interest	(135)	(150)	(191)
Accumulated other comprehensive income (loss)	652	(5,165)	(6,248)
	347,294	314,207	260,051
Total liabilities and members' equity	$ 5,763,463	$ 5,199,281	$ 4,922,361

FirstOntario
CREDIT UNION

SUMMARY OF CONSOLIDATED STATEMENTS OF INCOME			
(thousands of dollars)	**Fiscal year ended December 31, 2022**	**Fiscal year ended December 31, 2021**	**Fiscal year ended December 31, 2020**
Interest and investment income	$ 177,026	$ 157,779	$ 168,942
Interest expense	92,060	64,321	87,800
Net interest income before the following	84,966	93,458	81,142
Provision for impaired loans	(1,538)	(786)	(5,970)
Other income	52,314	68,974	38,862
Net interest and other income	135,742	161,646	114,034
Non-interest expenses	95,376	88,637	84,864
Income before income taxes	40,366	73,009	29,170
Income taxes	10,108	14,553	4,407
Net income for the year	$ 30,258	$ 58,456	$ 24,763

Glossary of Terms

“Act”

The Credit Unions and Caisses Populaires Act, 2020, and its associated Regulations and Rules, as now enacted or as the same may from time to time be amended, re-enacted, or replaced.

"Agricultural Loan"

A loan to finance the production of cultivated or uncultivated field-grown crops; the production of horticultural crops, the raising of livestock, fish, poultry, and fur-bearing animals; or the production of eggs, milk, honey, maple syrup, tobacco, wood from woodlots, and fibre and fodder crops.

"Administration"

A legal status ordered by the Chief Executive Officer of the Authority in any of the following circumstances:

1. The Chief Executive Officer of the Authority, on reasonable grounds, believes that a credit union is conducting its affairs in a way that might be expected to harm the interests of members, depositors or shareholders or that tends to increase the risk of claims against the deposit insurer, but that Supervision by the Chief Executive Officer of the Authority would, in this case, not be appropriate;
2. A credit union has failed to comply with an order of the Chief Executive Officer of the Authority made while the credit union was subject to Supervision;
3. The Chief Executive Officer of the Authority is of the opinion that the assets of a credit union are not

sufficient to give adequate protection to its depositors;

4. A credit union has failed to pay any liability that is due or, in the opinion of the Chief Executive Officer of the Authority, will not be able to pay its liabilities as they become due;
5. After a general meeting and any adjournment of no more than two weeks, the members of a credit union have failed to elect the minimum number of directors required under the Act, (currently 5);
6. The Authority has received a report from the Chief Executive Officer of the Authority that the Chief Executive Officer of the Authority has ordered a credit union to discontinue operations for a period; under which the Authority has the power to:
    a) Carry on, manage and conduct the operations of that credit union;
    b) Preserve, maintain, realize, dispose of and add to the property of that credit union;
    c) Receive the income and revenues of that credit union;
    d) Exercise the powers of that credit union and of its directors, officers, and committees;
    e) Exclude the directors of that credit union and its officers, committee members, employees and agents from its property and business; and
    f) Require that credit union to:
        i. Amalgamate with another credit union;
        ii. Dispose of its assets and liabilities; or
        iii. Be wound up.

"Authority"

The Financial Services Regulatory Authority of Ontario.

"Basis Point"

One-hundredth of one percent (0.01%).

"Bridge Loan"

A loan to an individual made under the following circumstances:

1. The loan is for the purchase of residential property in which the purchaser will reside.
2. The term of the loan is not greater than 120 days.
3. The funds from the sale of another residential property owned by the individual will be used to repay the loan.
4. The Credit Union must receive a copy of the executed purchase and sale agreement for both properties before the loan is made.
5. The conditions of each of the purchase and sale agreements must be satisfied before the loan is made.
6. The loan is fully secured by a mortgage on the residential property being sold or, before the loan is made, the borrower's solicitor has given the Credit Union an irrevocable letter of direction from the borrower stating that the funds from the sale of the residential property being sold will be remitted to the Credit Union.

“Capital Conservation Buffer”

Tier 1 Capital in excess of Tier 1 Capital required to meet the Tier 1 Capital Ratio.

“Capital Conservation Buffer Ratio”

Capital Conservation Buffer as a percentage of Risk-Weighted Assets.

"Commercial Loan"

A loan, other than any of the following types of loans, made for any purpose: an Agricultural Loan; a Bridge Loan; an Institutional Loan; a Personal Loan; or a Mortgage Loan; an Unincorporated Association Loan; a loan that consists of deposits made by the Credit Union with a financial institution, Central 1 Credit Union or La Fédération des caisses Desjardins du Québec, a loan fully secured by a deposit with a financial institution (including the Credit Union making the loan), Central 1 Credit Union or La Fédération des caisses Desjardins du Québec, a loan fully secured by debt obligations guaranteed by a financial institution other than the Credit Union making the loan, Central 1 Credit Union or La Fédération des caisses Desjardins du Québec, a loan that is fully secured by a guarantee of a financial institution other than the Credit Union making the loan, Central 1 Credit Union or La Fédération des caisses Desjardins du Québec, an investment in a debt obligation that is fully guaranteed by a financial institution other than the Credit Union making the loan, fully secured by deposits with a financial institution (including the Credit Union making the loan), or fully secured by debt obligations that are fully guaranteed by a financial institution other than the Credit Union making the loan; an investment in a debt obligation issued by the federal government, a provincial or territorial government, a municipality, or any agency of such a government or municipality; an investment in a debt obligation guaranteed by, or fully secured by securities issued by, the federal government, a provincial or territorial government, a municipality, or by an agency of such a government or municipality; an investment in a debt obligation issued by a central, Central 1 Credit Union or La Fédération des caisses Desjardins du Québec, an investment in a debt obligation that is widely-distributed; an investment in shares or ownership interests that are widely-distributed; an investment in a participating share; or an investment in shares of a central, Central 1 Credit Union or La Fédération des caisses Desjardins du Québec. A Commercial Loan includes the supply of funds for use in automated bank machines not owned and operated by the Credit Union supplying the funds.

"Escrow"

A form of trust agreement in which funds are temporarily placed under the control of a third party (trustee) until specific conditions, set out in advance, are met.

"Institutional Loan"

A loan given to the federal government or a federal government agency, a provincial or territorial government or an agency of one, a municipality or an agency of one, a school board or college funded primarily by the federal or a provincial or territorial government, or an entity primarily funded by the federal government, a provincial or territorial government, or a municipality.

"Leverage Ratio"

Total Regulatory Capital divided by total assets, (adjusted for certain intangible assets, off-balance sheet exposures, and loans funded by a level of government for which the Credit Union has no credit risk).

"Membership Shares"

Shares required, according to a Credit Union's by-laws, to maintain a membership in the Credit Union.

"Mortgage Loan"

A loan that is secured by a mortgage on an individual condominium unit or a building with one to four units where at least one half of the floor area of the building is utilized as one or more private residential dwellings, and to which any of the following apply:

1. The amount of the loan, together with the amount then outstanding of any mortgage having an equal or prior claim against the mortgaged property, does not exceed 80% of the value of the property when the loan is made.
2. The loan is insured under the "National Housing Act (Canada)" or guaranteed or insured by a government agency.
3. The loan is insured by an insurer licensed to undertake mortgage insurance.

"Non-Cumulative"

Dividends not declared or paid for one fiscal year are not carried forward or added to the dividend of a following year but are forever extinguished.

"Non-Participating"

In case of dissolution, shareholders receive only the Redemption Amount (see below) and do not participate in receiving any of the residual value of the Credit Union's assets.

"Non-Voting"

Holders vote only at special meetings as required by the Act.

"Personal Loan"

A loan given to an individual for personal, family or household use; or to an individual or entity for any other use if the loan, and all other loans outstanding to that individual or entity, does not exceed $25,000.

"Redemption Amount"

The amount a shareholder receives on redemption or at which shares are transferred from one member to another; this amount is equal to the issue price of the shares ($1.00 per share) plus any dividends which have been declared but not yet paid.

"Regulatory Capital"

Membership Shares, Class A Shares, Class B Shares, retained earnings, accumulated other comprehensive income (loss), contributed surplus, and a portion of the Credit Union's non-specific allowance for impaired loans.

"Risk-Weighted Assets"

The absolute value of assets in specified categories, and certain off-balance sheet exposures is multiplied by a percentage, varying between 0% and 1,250% depending on the risk attributed to each category. The sum of all the categories is the Credit Union's Risk-Weighted Assets.

"Schedule I Banks"

Schedule I banks are domestic banks and are authorized under the *Bank Act* to accept deposits, which may be eligible for deposit insurance provided by the Canada Deposit Insurance Corporation.

"Schedule II Banks"

Schedule II banks are foreign bank subsidiaries authorized under the *Bank Act* to accept deposits, which may be eligible for deposit insurance provided by the Canada Deposit and Insurance Corporation. Foreign bank subsidiaries are controlled by eligible foreign institutions.

"Special Resolution"

A resolution passed by two-thirds or more of the votes cast by or on behalf of the persons who voted in respect of that resolution.

"Substantial Portion"

Assets having an aggregate value equal to or greater than 15% of a credit union's assets at the end of its previous fiscal year.

"Supervision"

A legal status ordered by the Chief Executive Officer of the Authority when:

1. A credit union asks, in writing, that it be subject to supervision;
2. A credit union is not in compliance with prescribed Regulatory Capital or liquidity requirements;
3. The Chief Executive Officer of the Authority has reasonable grounds for believing that a credit union is conducting its affairs in a way that might be expected to harm the interests of members or depositors or that tends to increase the risk of claims against the Authority;
4. A credit union or an officer or director of it does not file, submit or deliver a report or document required to be filed, submitted, or delivered under this Act within the time limits outlined under this Act; or
5. A credit union did not comply with an order of the Chief Executive Officer of the Authority under which the Chief Executive Officer of the Authority can:
   a) Order that credit union to correct any practices that the Chief Executive Officer of the Authority feels are contributing to the problem or situation that caused it to be ordered subject to the Authority's supervision;
   b) Order that credit union and its directors, committee members, officers and employees not to exercise any powers of that credit union or of its directors, committee members, officers and employees;
   c) Establish guidelines for the operation of that credit union;
   d) Order that credit union not to declare or pay a dividend or to restrict the amount of a dividend to be paid to a rate or amount set by the Chief Executive Officer of the Authority;
   e) Attend meetings of that credit union's board and its audit committees; and

f) Propose by-laws for that credit union and amendments to its articles of incorporation.

"Syndicated Loans"

A loan, including any related credit facilities, to which all the following conditions apply:

1. The loan is made under a syndicated loan agreement.
2. The syndicating lead is one of the following institutions:
    a) A credit union, or a subsidiary of a credit union if that credit union is the only other party, other than the borrower, to the syndicated loan agreement
    b) A central
    c) Central 1 Credit Union
    d) Fédération des caisses Desjardins du Québec
    e) A bank listed in Schedule I to the Bank Act (Canada)
3. The only parties to the syndicated loan agreement are the following entities:
    a) The syndicating lead
    b) A borrower from Ontario
    c) One or more of the following entities:
        i. A credit union or its subsidiary or affiliate
        ii. A central
        iii. Central 1 Credit Union
        iv. Fédération des caisses Desjardins du Québec
        v. A financial institution other than a securities dealer
        vi. An extra-provincial credit union registered under clause 273 (6) (a) of the 2020 Act
4. Each of the parties to the syndicated loan agreement, other than the borrower, agrees to contribute a specified portion of the loan and to be bound by the terms and conditions of the syndicated loan agreement.
5. The syndicating lead contributes at least 10% of the loans, including any related credit facilities, and underwrites, disburses, and administers them on behalf of the parties to the syndicated loan agreement.

    Syndicated loans can be made inside or outside Ontario, in which case a Credit Union incorporated pursuant to the laws of another Canadian province can be the syndicating lead, and the borrower can be located in another Canadian province.

"Tier 1 Capital"

Has the meaning as specified in the Authority's Rule 2021-02 with respect to capital adequacy.

"Tier 2 Capital"

Has the meaning as specified in the Authority's Rule 2021-02 with respect to capital adequacy.

“Tier 1 Capital Ratio”

Tier 1 Capital as a percentage of Risk-Weighted Assets.

“Total Capital Ratio”

Regulatory Capital divided by Risk-Weighted Assets.

“Total Supervisory Capital Ratio”

The sum of Tier 1 Capital, including the Capital Conservation Buffer, and Tier 2 Capital, as a percentage of Risk-Weighted Assets.

"Unincorporated Association Loan"

A loan to an unincorporated association or organization that is not a partnership registered under the *Business Names Act*, and that is operated on a non-profit basis for educational, benevolent, fraternal, charitable, religious, or recreational purposes.

Detailed Offering Statement

The Credit Union

The Credit Union was formed by the amalgamation, on August 31, 1999, of Avestel Credit Union Limited (“Avestel”) and Family Savings and Credit Union (Niagara) Limited (“Family Savings”). Avestel was itself created by amalgamation on December 1, 1996, amalgamating the former Avestel Credit Union Limited (which had been incorporated in 1940 as the Stelco Employees Credit Union (Hamilton Works) Ltd.) and CUNA of Ontario Credit Union Limited. Family Savings was incorporated on October 20, 1949 as St. Catharines Auto Workers’ Credit Union Limited, and initially served the employees of General Motors. The Credit Union’s head office is located at 970 South Service Road, Suite 301, Stoney Creek ON L8E 6A2.

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The Credit Union has three wholly-owned subsidiaries: FirstOntario Insurance Holdings Inc., FirstOntario Credit Union Realty Corporation and FirstOntario Credit Union GP Corporation.

FirstOntario Insurance Holdings Inc. is a holding company which manages the Credit Union’s 51% interest in FirstOntario Insurance Brokers Inc., an Ontario-licensed insurance brokerage.

FirstOntario Credit Union Realty Corporation owns interests in various real estate joint ventures, whether common shares (including of a corporate general partner) or limited partnership units, on behalf of the Credit Union.

FirstOntario Credit Union GP Corporation acts as the general partner in various real estate joint ventures carried on through limited partnerships (since the Act prevents the Credit Union acting as general partner directly), in which FirstOntario Credit Union Realty Corporation owns all the limited partnership units.

The financial results of all subsidiaries are consolidated with those of the Credit Union in the preparation of the Credit Union’s consolidated audited financial statements (“audited financial statements”) each year (December 31).

Included in Appendix A is the audited financial statements for the year ended December 31, 2022.

The Credit Union also operates largely digitally under the business names Saven Financial and Creative Arts Financial. Creative Arts Financial was created October 31, 2020, when the Credit Union acquired the assets of Creative Arts Savings and Credit Union Limited. Saven Financial commenced business in January 2021.

The Credit Union earns a significantly higher proportion of its revenue than seen elsewhere in the Ontario Credit Union system from various real estate joint ventures, and from investments in private equity and private debt (including outside Ontario and Canada) and infrastructure. For further details, see page 37.

The Credit Union serves approximately 126,000 members through 29 branches and two commercial services locations located in the Golden Horseshoe and Southwestern Ontario, through its interactive banking machines, which provide both Automated Teller Machine and Personal Assisted Teller services, and through its Internet, mobile and telephone banking platforms. The Credit Union provides a full range of retail and commercial credit and non-credit financial services and products.

The Credit Union is open to mergers and acquisitions with other credit unions. No formal letters of intent or any legal binding commitments have been executed as of the date hereof.

See also “Business of the Credit Union”, on pages 16 to 25.

The audited financial statements attached as Schedule A hereto have been approved by the board, but not yet been presented to the members of the Credit Union for approval. This will occur at the Credit Union’s annual general meeting on April 19, 2023.

Business of the Credit Union

General Description of the Business

With over $5.7 billion in assets and over $10.5 billion in member’s funds under management, the Credit Union is the fifth largest Credit Union in Ontario and the sixteenth largest in Canada. The Credit Union is a full-service Credit Union providing a wide range of credit, investment, and financial advice.

Fiscal 2023 marks the first year of a four-year strategic plan developed in 2022. The new strategic plan builds on the critical work started in the Credit Union’s last strategic plan, with a continued focus on the primary pillars of stakeholder experience, digital capabilities, and operational excellence, as well as adding the pillars of corporate relevance, embedding purpose and environment, social and governance (“ESG”) issues. In the new plan, the Credit Union’s journey is to become a purpose driven organization, playing a vital role in society as a strong and vibrant community-based credit union while addressing important ESG issues.

The Credit Union has plans and programs designed to fulfill the six strategic pillars, with two key enablers guiding this plan: risk management and change management. A comprehensive risk assessment is in place that includes compensating internal controls to avoid financial loss and negative impacts to member experience and employee confidence. Successful execution of the strategic plan is predicated on ensuring effective change management protocols are in place during all major change initiatives.

An overview of the products and services offered by the Credit Union follows:

Personal Financial Services

The Credit Union provides a broad range of personal financial products and services to its members. Retail financial products for individuals include Canadian-dollar savings and chequing accounts (including a high-interest savings account), U.S.-dollar chequing accounts, and an extensive variety of Canadian-dollar term deposit products in both short terms of 30 to 364 days (which are also available in US dollars) and longer terms of one to five years. The Credit Union also offers a variety of business accounts to serve the needs of its small business members. Registered investment options include registered retirement savings plans (“RRSPs”) and their locked-in equivalent, registered retirement income funds (“RRIFs”) and their locked-in equivalent, tax-free savings accounts (“TFSAs”), registered disability savings plans (“RDSP”) and registered education savings plans (“RESPs”). Investment services also include mutual funds, full brokerage services, and on-line securities trading offered through arrangements with Aviso Wealth and its subsidiaries, Credential Financial Inc., Qtrade Canada Inc., and NEI Investments as outlined at page 57. As at December 31, 2022, members of the Credit Union had $355,146,000 administered by the Credit Union, primarily in mutual funds, stocks and bonds. All registered plans are trusteed by Concentra Trust (“Concentra Trust”).

The Credit Union owns and operates 44 Interactive Banking Machines (“IBMs”) located primarily at its branches. The Credit Union is also linked to the Interac, Cirrus System and Plus networks and is a member of The Exchange® Network, giving members access to their accounts at point-of-sale terminals and IBMs well beyond its own branch network and throughout Ontario, Canada, and internationally.

The Credit Union has arrangements with approximately 10 deposit brokers to assist it in its efforts to attract members’ deposits. The Credit Union’s structural risk management policy limits these deposits in the aggregate to 30% of the Credit Union’s total deposits (approximately $1.4 billion).

The Credit Union offers a Visa credit card through an arrangement with a third party. The Credit Union does not hold the accounts receivable owing from its credit card holders.

Lending Services

The Credit Union is permitted to offer Personal Loans, Mortgage Loans, Bridge Loans, Commercial Loans, Agricultural Loans, Institutional Loans, Syndicated Loans and Unincorporated Association Loans, up to limits defined in its lending policies, which are required by regulation to meet a “prudent person” standard. The Credit Union is also subject to a limit on loans to any one person and their “connected persons”, as that phrase is defined in a regulation passed pursuant to the Act, of 25% of its Regulatory Capital (approximately $89.7 million). The board has approved, and management follows, its lending policies in all areas to minimize the risk of loan losses. A variety of loan-related group insurance products are also available to members for personal loans and mortgages.

Personal Loans

Personal Loans consist of instalment loans, demand loans, and lines of credit. According to the Credit Union’s structural risk management policy, aggregate Personal Loans are not to exceed 30% of the Credit Union’s total assets (currently approximately $1.7 billion). As at December 31, 2022, the Credit Union’s Personal Loan portfolio totalled $128,286,000.

Included in the Credit Union’s Personal Loan portfolio are vehicle loans granted by what it refers to as its “dealer finance centre”. The Credit Union has arrangements with approximately 115 vehicle dealers whereby the vehicle dealer completes and submits the required loan and personal identification documents to the Credit Union, which then approves and funds the loan. Since these Personal Loans tend to be riskier than general, the Credit Union's credit risk management policy limits these loans in the aggregate to 15% of the Credit Union's total assets (currently approximately $864.5 million). As of December 31, 2022, the Credit Union has approximately $90,474,000 outstanding in such Personal Loans.

The Credit Union also operates a successful "micro loan" program, to assist members of disadvantaged groups in setting up small businesses. Individual micro loans are limited to $5,000.

Residential Mortgages

The Credit Union offers Mortgage Loans and Bridge Loans to its members through its branch network and relationships with over 1,400 independent mortgage brokers. It grants Mortgage Loans to individuals according to conventional mortgage lending standards for residential property. As of December 31, 2022, approximately 75% of the Credit Union's portfolio of Mortgage Loans consists of conventional mortgages; the remainder are high-ratio mortgages insured either by the Canada Mortgage and Housing Corporation, Canada Guaranty Mortgage Insurance Company or by Sagen MI Canada Inc. (formerly Genworth Financial Mortgage Insurance Company Canada), the insurance regarding $360,746,000 of which was purchased in bulk. According to the Credit Union's credit risk management and structural risk management policy, individual Mortgage Loans are generally limited to $3,500,000, and individual Bridge Loans are generally limited to $1,000,000, and aggregate Mortgage Loans and Bridge Loans are limited to 80% of total assets (approximately $4.6 billion). As at December 31, 2022, the Credit Union's portfolio of Mortgage Loans and Bridge Loans totalled $4,061,771,000. In addition, the Credit Union's members had $546,613,000 then outstanding in Mortgage Loans which had been securitized by the Credit Union through the securitization program discussed at page 42.

The Credit Union operates a Mortgage Loan program for those who cannot meet all the covenants of a conventional residential mortgage, such as self-employment income or non-traditional income sources. The Credit Union believes any risks associated with these Mortgage Loans are mitigated through pricing and various compensating adjudication standards, such as requiring lower loan to value ratios and higher levels of property appraisals.

The Credit Union utilizes various third parties to source and service new Mortgage Loans. After funding of the loans by the Credit Union, relationships typically remain with the third-party lender, acting as the lead lender and servicer of the Mortgage Loans. However, all amounts are due to the Credit Union by the members, with the third party acting as an agent on the Credit Union's behalf to collect funds from the member and then remit those funds to the Credit Union on a recurring basis.

Commercial Loans

Commercial Loans consist of mortgages, term loans and operating lines of credit to small and medium-sized businesses, and mortgages that do not meet the definition of a Mortgage Loan because the property is multi-unit residential or non-residential property. According to the Credit Union's credit risk management and structural risk management policy, individual Commercial Loans are limited to 20% of the Credit Union's Regulatory Capital (approximately $71,776,000) and aggregate Commercial Loans are limited to 38% of the Credit Union's total assets according to the credit risk management policy (approximately $2.2 billion). The Credit Union also has 10 categories of credit risk posed to it by commercial borrowers and limits the Commercial Loans that can be made to borrowers in the four riskier categories. The Credit Union's credit risk management policy imposes formal limits on the portion of the Commercial Loan portfolio that can come from specified industry classifications and sub-classifications, and from particular geographic areas. As at December 31, 2022, the Credit Union's Commercial Loan portfolio totalled

$941,778,000. In addition, the Credit Union's members had $2,783,830,000 then outstanding in Commercial Loans which had been securitized by the Credit Union through the securitization program discussed at page 42.

Institutional Loans

Institutional Loans are loans to the federal or a provincial, territorial, or municipal government or governmental agency, a school board or college funded primarily by the federal or a provincial or territorial government, or an entity funded primarily by the federal or a provincial or municipal government. The Credit Union's credit risk management policy limits aggregate Institutional Loans to 10% of Regulatory Capital (approximately $35,888,000). As at December 31, 2022, the Credit Union had no Institutional Loans outstanding.

Agricultural Loans

Agricultural Loans consist of mortgages, term loans and operating lines of credit to all types of agricultural businesses. The Credit Union's structural risk management policy limits aggregate Agricultural Loans to 1.9% of the Credit Union's total assets (approximately $109,506,000). As at December 31, 2022, the Credit Union had no Agricultural Loans outstanding.

Unincorporated Association Loans

Unincorporated Association Loans consist of any loan made to an unincorporated association or organization that is not a partnership, and that is operated on a non-profit basis for educational, benevolent, fraternal, charitable, religious, or recreational purposes. The Credit Union's credit risk management policy limits individual Unincorporated Association Loans to 3.8% of the Credit Union's total assets (approximately $219,012,000). As at December 31, 2022, the Credit Union's Unincorporated Association Loan portfolio totalled $1,143,000.

Syndicated Loans

Syndicated Loans are loans made by a syndicating credit union and other financial institutions pursuant to a syndicated loan agreement, enabling several lenders to cooperate in making a larger loan than any one of them would have been able or willing to offer to the borrower individually. The Credit Union's credit risk management policy limits individual Syndicated Loans (where the Credit Union is not the lead in the syndication) to 7.6% of the Credit Union's total assets (approximately $438,023,000). As at December 31, 2022, the Credit Union's Syndicated Loan portfolio totalled $95,857,000. All these loans are included in the Credit Union's Commercial Loan portfolio.

Other Limits Contained in the Credit Union's Credit Risk Management Policy

The Credit Union's credit risk management policy also contains limits on the percentage particular products can be of the Credit Union's portfolio of Personal Loans and Mortgage Loans.

Summary Lending Comments

For further information regarding any of these loan portfolios, see the "Loan Composition" heading in the table presented in the "Management Discussion and Analysis" section, on page 69, and Note 7 in the Credit Union's audited financial statements, on page 34 and 35 of Schedule A hereto.

Vision. Values. Purpose.

The Credit Union's vision is to be a credit union that inspires communities of people, organizations, and groups to combine their collective resources to build a thriving and sustainable future: a future where all communities are inclusive and equitable.

By uniting communities through everything the Credit Union does, as a financial institution, employer, community partner, cooperative, buyer, benefactor, and investor, the Credit Union can help all stakeholders participate in a sustainable future.

The Credit Union's decisions and culture are guided by its values of innovation, collaboration, accountability, and integrity. The Credit Union seeks always to do the right things for the right reasons. Its purpose and values are central to everything it does.

The Credit Union's purpose is to unite communities for a sustainable future.

Strategic Plan (2023-2026)

The Credit Union's key priorities for 2023 to 2026 are to improve stakeholder experience, enhance its digital capabilities, focus on operational excellence, increase its corporate relevance, commence work on its environmental, social and governance program ("ESG"), and embed its purpose in every aspect of its operations.

The strategic plan calls for the deployment of an additional $20 million in the alternative investments described at page 37 and rebalancing the existing portfolio of investments according to a new allocation model.

The Credit Union is open to mergers and acquisitions with other credit unions. No formal letters of intent or any legal binding commitments have been executed as of the date hereof.

The Credit Union's journey is to become a purpose driven organization, showing all stakeholders the Credit Union understands its vital role in society as a strong and vibrant community-based credit union, while addressing important ESG issues.

The Credit Union ensures a comprehensive risk assessment is in place that includes compensating internal controls to avoid financial loss and negative impacts to member experience and employee confidence.

Successful execution of the Credit Union's strategic plan is predicated on ensuring effective change management protocols are in place during all major change initiatives.

Bond of Association and Membership

The Credit Union's by-laws require that a bond of association exist among members of the Credit Union. Typically, such bonds of association may be community-based, employer-based, or otherwise based on a group of members with a form of common association. The Credit Union's bond of association is as fully described in section 2.01 of its by-laws, which permits any person who, if an individual, whether a minor or an adult, resides or is employed in Canada to be a member of the Credit Union.

The Credit Union's by-laws also permit those not otherwise qualifying for membership under its bond of association to become members, but only if the aggregate number of such members does not exceed 3% of the membership of the Credit Union.

Certain entities (*i.e.*, corporations, partnerships, and government ministries and agencies) may also become members.

Once one becomes a member of the Credit Union, one can remain a member of the Credit Union, even if one no longer qualifies for membership in the Credit Union.

Membership in the Credit Union is granted to applicants who are within the bond of association by enabling them to purchase and hold the required number of Membership Shares as specified in paragraphs 2.03 of the by-laws of the Credit Union. All members of the Credit Union are required eventually to hold thirty (30) five-dollar ($5.00) membership shares of the Credit Union. Purchases of membership shares in excess of the first five shares are typically funded through an annual membership dividend of $5.00, which, until the member owns the minimum required number of membership shares, is, once paid, debited from the member's account to purchase the additional membership share the member is required to purchase that year.

The Credit Union's by-laws also permit members of the Credit Union to hold, if those members choose to do so, up to 200 additional Membership Shares in the Credit Union.

<u>Corporate Governance</u>

The business of the Credit Union is directed and governed by its board, a group of between 9 and 14 (the number determined by board resolution and currently set at 12) qualified individuals who are elected by the members who are in full compliance with the minimum Membership Share requirement outlined above, and who, if they are individuals, are 18 years of age and over, prior to the annual general meeting of the Credit Union pursuant to a procedure outlined in the Credit Union's by-laws. Each director is elected for a three-year term on a staggered basis to provide for continuity of board members. No class or series of shares, other than Membership Shares, carries the right to elect the Credit Union's board.

The Credit Union follows a nomination procedure with regard to its director elections which is contained in its by-laws.

No person may serve as a director of the Credit Union for more than four consecutive terms, according to the Credit Union's by-laws.

The knowledge, experience and skill of each director and the board as a whole are important elements in the success and viability of the Credit Union. It is important that directors have appropriate competencies to effectively fulfill their responsibilities to the Credit Union, its members, and shareholders, and thereby contribute to the safety and soundness of the Ontario credit union system.

The Credit Union has established guidelines and processes to ensure that its directors understand, meet, and maintain appropriate competency requirements. The Credit Union requires its directors to possess a "strong" rating in nine core competencies within 24 months of their election to the board.

The board has established committees to assist in its effective functioning and to comply with the requirements of the Act.

An Audit Committee, which the Credit Union refers to as the Audit & Risk Committee (ARC), has been formed, and is composed of the committee Chair, a committee Vice Chair and at least three other directors. Its mandate and duties are set out in the Regulations to the Act. The ARC is responsible for, among other accountabilities, reviewing any financial statements which are presented to the members, either at an annual general meeting or within an offering statement, and making recommendations to the board as to the approval of such financial statements.

ARC members are required to attain the above-mentioned "strong" competency rating within 12 months, and the ARC and board chairs are required to attain that standard within six months.

A "strong" rating requires directors to apply and demonstrate these competencies through a combination of education, practical work experience, previous board experience and advanced director training. In relation to the practical application of their competencies, directors are expected to ensure information provided is sufficient to support analysis and provide recommendations, and to be actively involved in board meetings and in the Credit Union's long-range planning. Once the directors complete their self-assessments, the Credit Union prepares development plans for all directors, and the directors undertake any required training/development requirements in order to achieve these competencies within the established timelines. Once minimum requirements are met, directors continue their education through scheduled training courses, on-line courses, seminars, and conferences.

The Credit Union has a Governance Committee, consisting of the committee Chair and at least three or more board members at large. The Governance Committee is responsible for effective governance of the Credit Union, creating a healthy governance culture. The goal of the committee is to ensure both appropriate representation and governance structures, policies and procedures that reflect the industry's current best practices and regulatory requirements are implemented by the Credit Union.

The Credit Union has an Elections Committee, consisting of the committee Chair and at least three other directors who are not eligible for re-election in the upcoming director election process, regardless of whether or not they are actually seeking re-election in that process. The primary responsibility of this committee is to provide regular oversight on the operations of the board elections.

The Credit Union also has a Strategic Oversight Committee ("SOC") that is composed of the committee Chair and at least three other directors. The SOC is responsible for several areas including the review of plans for any mergers and acquisitions activities, new investments proposed by the corporate investment division, and the review of the Credit Union's strategic plan for its corporate investment division discussed at page 37.

Other board committees formed from time to time are *ad hoc*, informal, and advisory in nature.

The board has overall responsibility for and authority within the Credit Union, and directs the activities of the Chief Executive Officer, to whom it has delegated certain responsibilities according to board policies. The Credit Union has senior management as outlined on page 50 of the offering statement. The Credit Union has 515 full-time employees and 54 part-time employees, the part-time employees equating to 36 full-time positions. For the names, municipality of residence, offices with the Credit Union and the present principal occupations of the directors and senior managers of the Credit Union as of the date of this offering statement, see "Directors and Senior Management", beginning on page 50 of the offering statement.

The duties, powers and standards of care and performance for boards of directors, officers and committee members of credit unions are specified in the Act, and include a duty to act honestly, in good faith, and with a view to the best interest of the Credit Union, and to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

<u>The Regulatory Framework</u>

The Credit Unions and Caisses Populaires Act, 2020 (See also "Capital Adequacy", beginning on page 24).

Ontario credit unions are regulated through a comprehensive regulatory framework which involves the Ministry of Finance and the Financial Services Regulatory Authority of Ontario ("the Authority"). The credit union sector is governed by the Act.

The Ministry of Finance is responsible for developing and proposing the legislation and regulations, and the

Authority is responsible for developing the rules, that credit unions must follow.

The Authority is responsible for ensuring that credit unions operate in accordance with the requirements of the Act, including issues involving market conduct relating to members and the general public. The Authority is responsible for incorporating credit unions and caisses populaires, approving changes to their articles of incorporation, and issuing certain approvals under the Act, and for reviewing complaints against credit unions and caisses populaires.

The Authority is also responsible for overseeing compliance with sound business and financial practices, capital, and liquidity rules, and for administering the deposit insurance protection program for deposits held in Ontario credit unions up to prescribed limits. As part of this responsibility, the Authority has the authority to issue rules to ensure that insured institutions operate in accordance with sound business and financial practices.

The Authority may place a credit union or caisse populaire in a depositor protection program such as Supervision or Administration, or cancel its deposit insurance, if it believes that a credit union or caisse populaire is conducting its affairs in a way that might be expected to harm the interests of members or depositors or that tends to increase the risk of claims by depositors against the Authority. The Authority has rated the Credit Union on its differential premium system, enabling calculation of the Credit Union’s deposit insurance premium for its fiscal year ending December 31, 2022, and its insurance is in place and in good standing regarding its current fiscal year. The Credit Union is required to report to the Authority immediately any actual or anticipated event which is likely to have a material impact on the Credit Union’s financial position and increase the Authority’s insurance risk. In that event, the Authority reserves the right to impose other terms, conditions, or requirements as the Authority deems appropriate.

Central 1 Credit Union

Each province in Canada has one or more credit union associations that serve their member credit unions in the province, and, in Ontario, one of these bodies is Central 1 Credit Union (“Central 1”). As an incorporated association owned by its 97 (as of December 31, 2021) member credit unions in Ontario (59-member credit unions) and British Columbia (38-member credit unions), Central 1 provides wholesale financial, digital banking, and payments to its member credit unions.

As the central banker for its member credit unions, Central 1 provides, through an arrangement with a third party, centralized cheque clearing, and itself provides lending services to member credit unions. Lending services include overdraft facilities, demand loans, and term loans at fixed and variable rates.

Central 1 also undertakes government relations, economic forecasting, and market research and planning.

As a member of the Canadian Credit Union Association ("CCUA"), Central 1 and its member credit unions enjoy access to national government relations efforts, national marketing and research, and a voice in the World Council of Credit Unions, a world-wide association of national credit union associations of which CCUA is a member.

To become a member of Central 1, the Credit Union must purchase membership shares calculated based on the percentage of its total assets relative to the system’s total assets as of the preceding calendar year end. The Credit Union must also pay membership dues which are calculated using a formula which is based on the Credit Union's membership. As at December 31, 2022, the Credit Union’s membership in Central 1 is in good standing.

Tier 1 and Tier 2 Capital

Capital is defined in an Authority rule as the Credit Union’s Tier 1 Capital and Tier 2 Capital. Tier 1 Capital, regarded as the most permanent form of capital, includes the Credit Union’s Membership Shares, retained earnings, retained surpluses, including contributed surplus, accumulated other comprehensive income, and any issued and outstanding Class A Shares or Class B Shares which are not eligible to be redeemed in the twelve months following the date of the determination (i.e., 90%, because of the restriction on aggregate redemptions in a fiscal year). The Credit Union’s Tier 2 Capital includes that portion of any issued and outstanding Class A Shares or Class B Shares which can be redeemed in the next 12 months (i.e., 10%), accumulated other comprehensive income, and an allowance up to 1.25% of the Credit Union’s Risk-Weighted Assets.

Capital Adequacy

As at December 31, 2022, 2021 and 2020, the Credit Union was in compliance with the Regulatory Capital adequacy requirements of the Act and its predecessor legislation, as indicated under the “Compliance with Capital Requirements” heading of the table at page 69 of the offering statement.

The Credit Union’s capital management policy requires that the Credit Union maintain regulatory capital ratios that are in excess of the regulatory minimum levels. This policy also requires that dividends, interest rebates and patronage dividends not normally exceed profitability earned in the year in which they are declared and will not cause the Credit Union’s Regulatory Capital to fall below policy minimum levels. This policy also applies to all subsidiaries of the Credit Union which have not adopted a policy of their own regarding capital management.

At December 31, 2022 the Credit Union and its subsidiaries, on a consolidated basis, were in compliance with its capital management policy.

Based on the total assets and regulatory capital at December 31, 2022, the Credit Union's Leverage Ratio would increase to 6.27% if this offering is minimally subscribed (10,000,000 shares) and to 7.68% if fully subscribed (100,000,000 shares). Based upon the Credit Union's December 31, 2022 balance sheet, this offering would support additional growth of $6.5 billion if minimally subscribed, and $9.5 billion if fully subscribed, and $6.2 billion of growth if this offering does not proceed, while still maintaining the Leverage Ratio at no less than the regulatory minimum requirement of 3%.

The growth possible for the Credit Union, if this offering is fully or minimally subscribed, is calculated as follows. If this offering is fully subscribed (100,000,000 shares), the Credit Union will have Regulatory Capital of $458.6 million. Dividing this amount of Regulatory Capital by the required Leverage Ratio of 3.00% reveals that the Credit Union would then have sufficient Regulatory Capital to support assets of $15.3 billion. Subtracting from this level of assets the Credit Union’s total assets as reported on its December 31, 2022 balance sheet indicates that the Credit Union could grow by approximately $9.5 billion if this offering is fully subscribed. The Credit Union’s Leverage Ratio in this case will be 7.68%, assuming no growth from the assets disclosed on the Credit Union’s financial statements as of December 31, 2022.

If this offering is only minimally subscribed (10,000,000 shares), however, the Credit Union will have Regulatory Capital of $368.6 million. Dividing this level of Regulatory Capital by the required Leverage of 3.00% reveals that the Credit Union would then have sufficient Regulatory Capital to support assets of $12.3 billion. Subtracting from this level of assets the Credit Union’s total assets as reported on its December 31, 2022 balance sheet indicates that the Credit Union could grow by approximately $6.5 billion if this offering is minimally subscribed. The Credit Union’s Leverage Ratio in this case would be 6.27%, assuming no growth from the assets disclosed on the Credit Union’s financial statements as of December 31, 2022.

The Credit Union’s capital management policy also requires no surplus as a percentage of Risk Weighted Assets according to an annual internal capital adequacy report it is required to file with the Authority, but the requirement escalates to 1% of Risk-Weighted Assets over the next two years. The Credit Union's most recently completed internal capital adequacy planning report as at March 31, 2022, showed a current surplus in capital; however, due to various changes in Authority Rules relating to capital, a potential exists that the Credit Union will present a deficit according to that report at December 31, 2022. Under Authority Rules and methodologies to calculate internal capital adequacy in effect on December 31, 2022, the Credit Union forecasts that this potential deficit will be eliminated by the end of 2023 by this investment share issuance.

Additional Information

For more information regarding the Credit Union's operations, see "Management's Discussion and Analysis" beginning on page 58, and the audited financial statements as of December 31, 2022, attached hereto as Schedule A.

Capital Structure of the Credit Union

The Credit Union has three classes of shares in its capital structure: Membership Shares, Class A Special Shares (the "Class A Shares"), and Class B Special Shares (the "Class B Shares"), of which both Class A Shares and Class B Shares are issuable in series. The Credit Union has created and authorized one series of Class A Shares (the "Class A Patronage Shares, Series 1"), and seven series of Class B Shares (the "Class B Shares, Series 1", the "Class B Shares, Series 2", the "Class B Shares, Series 2010", the "Class B Shares, Series 2013", the "Class B Shares, Series 2015", the "Class B Shares, 2020", and the "Class B Shares, Series 2023"). The Credit Union, as of the date hereof, has no Class A Patronage Shares, Series 1, issued or outstanding.

The Class B Shares, Series 2013, were created on November 14, 2013, to facilitate the Credit Union's purchase of the assets of Rochdale Credit Union Limited.

The Class B Investment Shares, Series 2020, were created on October 27, 2020, to facilitate the Credit Union's purchase of the assets of Creative Arts Financial Savings & Credit Union Limited, which is now the Creative Arts Financial business name of the Credit Union.

The following represents a summary of the rights of the Membership Shares, the Class A Patronage Shares, Series 1, and the Class B Shares, Series 1, 2, 2010, 2013, 2015, 2020 and 2023 in the capital structure of the Credit Union regarding dividends, return of capital on dissolution, redeemability at the holder's initiative, redeemability at the Credit Union's initiative, voting, and treatment of shares as Regulatory Capital. The amount members hold in Membership Shares, Class A Shares, and the various series of Class B Shares are outlined in detail in Note 15 of the audited financial statements, beginning at page 49 of Schedule A hereto.

Right	Dividends	Return of Capital on Dissolution	Redeemability at the Holder's Initiative (Retraction)	Redeemability at the Credit Union's Initiative	Voting	Treatment as Regulatory Capital
Membership Shares	The holders of the Membership Shares are entitled, after payment of dividends to holders of the Class B Investment Shares, Series 1, 2, 2010, 2013, 2015, and 2023, and of the Class A	The holders of the Membership Shares are entitled, on dissolution of the Credit Union, to receive an amount representing equal portions of the assets or property of the Credit Union remaining after payment of all its debts and obligations,	Membership Shares are not redeemable at the member's initiative. See below, however, regarding the Credit Union's obligation to redeem the Membership Shares at its initiative in certain circumstances.	Upon death, or upon withdrawal or expulsion from membership in the Credit Union, the Credit Union must redeem the member's Membership Shares held at the amount paid up	Each member of the Credit Union age 18 years or older has one vote on any matter considered by any annual or special meeting of its membership,	The Credit Union includes all its membership Shares as Tier I Regulatory Capital.

	Patronage Shares, Series 1, to receive Non-Cumulative cash or share dividends if, as and when declared by the board. Dividends are taxed as interest income and not as dividends.	including redemption of the Class B Investment Shares, Series 1, 2, 2010, 2013, 2015, and 2023, and the Class A Patronage Shares, Series 1.		for each such membership Share, plus any declared but unpaid dividends thereon, unless such redemption would cause the Credit Union to fail to comply with Regulatory Capital and liquidity requirements.	and in the board elections conducted prior to the annual general meeting.	
Class A Patronage Shares, Series 1	The holders of Class A Patronage Shares Series 1, are entitled, in preference to holders of the Membership Shares, but ranking junior to the holders of Class B Shares, Series 1, 2, 2010, 2013, 2015, 2020 and 2023, to receive Non-Cumulative cash or share dividends if, as, and when declared by the board. Holders of Class A Patronage Shares, Series 1 may, however, consent, by majority vote at a special meeting, to the prior payment of dividends to holders of a junior class of shares. Dividends are taxed as interest income and not as dividends.	The holders of Class A Patronage Shares, Series 1 are entitled, in preference to the holders of the Membership Shares, but junior to the holders of the Class B Shares, Series 1, 2 2010, 2013, 2015, 2020 and 2023, to receive the Redemption Amount for each share held upon the liquidation, dissolution, or winding up of the Credit Union, after payment of all of its other debts and obligations.	Holders who are withdrawing or expelled from membership in the Credit Union, or who have died, may request that the Credit Union redeem the Class A Patronage Shares, Series 1, they hold, at any time. Redemption requests are processed on a first-come, first-served basis, and any shares not redeemed in a particular fiscal year are the first shares redeemed in the next fiscal year. All redemptions are at the discretion of the board. In no case shall the total number of Class A Patronage Shares, Series 1, redeemed in any fiscal year exceed 10% of the issued and outstanding Class A Patronage Shares, Series 1, reported on the Credit Union's audited financial statements for the preceding fiscal year, and in no case shall a redemption occur which would cause the Credit Union to fail to comply with Regulatory Capital and liquidity requirements. Note that all redemptions and retractions are subject to certain regulatory requirements.	The Credit Union may at its initiative purchase for cancellation, subject to continued compliance with Regulatory Capital and liquidity requirements, at the Redemption Amount, all or any portion of the Class A Patronage Shares, Series 1 outstanding at any time five years or more after the shares were issued. Note that all redemptions and retractions are subject to certain regulatory requirements.	Class A Patronage Shares, Series 1 do not carry any voting rights, except when the Act requires that those shares carry voting rights. When the Class A Patronage Shares, Series 1 carry voting rights, each Class A Patronage Share, Series 1 carries one vote.	The Credit Union includes 90% of the Class A Patronage Shares, Series 1 as Tier I Regulatory Capital, and includes the remaining 10% of the Class A Patronage Shares, Series 1 as Tier II Regulatory Capital.
Class B Investment Shares, Series 1	The holders of Class B Shares, Series 1, are entitled, in preference to holders of the Class A Patronage Shares, Series 1 and of the Membership Shares, but equally with holders of the Class B Shares, Series 2, 2010, 2013, 2015, 2020 and 2023, to receive Non-Cumulative cash or share dividends if,	The holders of Class B Shares, Series 1, are entitled, in preference to the holders of the Class A Patronage Shares, Series 1, and the Membership Shares, but rateably with the holders of the Class B Shares, Series 2, 2010, 2013, 2015, 2020, and 2023, to receive the Redemption Amount for each share held upon the liquidation, dissolution, or winding up of the Credit Union,	Holders may request that the Credit Union redeem the Class B Shares, Series 1, they hold, at any time three years or more after the issuance of these shares, or at any time after the death or expulsion from membership of the holder of the Class B Shares, Series 1. Redemption requests made by estates of deceased shareholders are processed on a first come, first served basis, and any shares not redeemed in a particular fiscal year are the first shares redeemed in the next fiscal year. Other	The Credit Union may at its initiative purchase for cancellation, subject to continued compliance with Regulatory Capital and liquidity requirements, at the Redemption Amount, all or any portion of the Class B Shares, Series 1, outstanding at any time five years or	Class B Shares, Series 1, do not carry any voting rights, except when the Act requires that those shares carry voting rights. When the Class B Shares, Series 1, carry voting rights, each Class B Share, Series 1, carries one vote.	The Credit Union includes 90% of the Class B Shares, Series 1, issued prior to October 1, 2009, as Tier I Regulatory Capital, and includes the remaining 10% of the Class B Shares, Series 1, as Tier II

	as and when declared by the board. Holders of Class B Shares, Series 1, may, however, consent, by majority vote at a special meeting, to the prior payment of dividends to holders of a junior class of shares. Dividends are taxed as interest income and not as dividends.	after payment of all of its other debts and obligations.	redemption requests are processed twice annually and are pro-rated if redemption requests exceed the redemption limit. All redemptions are at the discretion of the board. In no case shall the total number of Class B Shares, Series 1, redeemed in any fiscal year exceed 10% of the issued and outstanding Class B Shares, Series 1, reported on the Credit Union's audited financial statements for the preceding fiscal year, and in no case shall a redemption occur which would cause the Credit Union to fail to comply with Regulatory Capital and liquidity requirements. Note that all redemptions and retractions are subject to certain regulatory requirements.	more after the shares were issued. Note that all redemptions and retractions are subject to certain regulatory requirements.		Regulatory Capital.
Class B Investment Shares, Series 2	The holders of Class B Shares, Series 2 are entitled, in preference to holders of the Class A Patronage Shares, Series 1, and of the Membership Shares, but equally with the holders of the Class B Shares, Series 1, 2010, 2013, 2015, 2020 and 2023, to receive Non-Cumulative cash or share dividends if, as and when declared by the board. Holders of Class B Shares, Series 2 may, however, consent, by majority vote at a special meeting, to the prior payment of dividends to holders of a junior class of shares. Dividends are taxed as interest income and not as dividends.	The holders of Class B Shares, Series 2 are entitled, in preference to the holders of the Class A Patronage Shares, Series 1, and the Membership Shares, but rateably with the holders of the Class B Shares, Series 1, 2010, 2013, 2015, 2020 and 2023, to receive the Redemption Amount for each share held upon the liquidation, dissolution, or winding up of the Credit Union, after payment of all of its other debts and obligations.	Holders may request that the Credit Union redeem the Class B Shares, Series 2 they hold, at any time five years or more after the issuance of these shares, or at any time after the death or expulsion from membership of the holder of the Class B Shares, Series 2. Redemption requests are processed on a first-come, first-served basis, and any shares not redeemed in a particular fiscal year are the first shares redeemed in the next fiscal year. All redemptions are at the discretion of the board. In no case shall the total number of Class B Shares, Series 2 redeemed in any fiscal year exceed 10% of the issued and outstanding Class B Shares, Series 2 reported on the Credit Union's audited financial statements for the preceding fiscal year, and in no case shall a redemption occur which would cause the Credit Union to fail to comply with Regulatory Capital and liquidity requirements. Note that all redemptions and retractions are subject to certain regulatory requirements.	The Credit Union may at its initiative purchase for cancellation, subject to continued compliance with Regulatory Capital and liquidity requirements, at the Redemption Amount, all or any portion of the Class B Shares, Series 2 outstanding at any time five years or more after the shares were issued. Note that all redemptions and retractions are subject to certain regulatory requirements.	Class B Shares, Series 2 do not carry any voting rights, except when the Act requires that those shares carry voting rights. When the Class B Shares, Series 2 carry voting rights, each Class B Share, Series 2 carries one vote.	The Credit Union includes 90% of the Class B Shares, Series 2 as Tier I Regulatory Capital, and includes the remaining 10% of the Class B Shares, Series 2 as Tier II Regulatory Capital.
Class B Investment Shares, Series 2010	The holders of Class B Shares, Series 2010 are entitled, in preference to holders of the Class A Patronage Shares,	The holders of Class B Shares, Series 2010 are entitled, in preference to the holders of the Class A Patronage Shares, Series 1, and	Holders may request that the Credit Union redeem the Class B Shares, Series 2010 they hold, at any time five years or more after the issuance of these shares, or at any time after the	The Credit Union may at its initiative purchase for cancellation, subject to continued	Class B Shares, Series 2010 do not carry any voting rights, except when the Act requires that	The Credit Union includes 90% of the Class B Shares, Series 2010 as Tier I

	Series 1, and of the Membership Shares, but equally with the holders of the Class B Shares, Series 1, 2, 2013, 2015, 2020 and 2023, to receive Non-Cumulative cash or share dividends if, as and when declared by the board. Holders of Class B Shares, Series 2010 may, however, consent, by majority vote at a special meeting, to the prior payment of dividends to holders of a junior class of shares. Dividends are taxed as interest income and not as dividends.	the Membership Shares, but rateably with the holders of the Class B Shares, Series 1, 2, 2013, 2015, 2020 and 2023, to receive the Redemption Amount for each share held upon the liquidation, dissolution, or winding up of the Credit Union, after payment of all of its other debts and obligations.	death or expulsion from membership of the holder of the Class B Shares, Series 2010. Redemption requests are processed on a first-come, first-served basis twice annually, and any shares not redeemed in a particular fiscal year are the first shares redeemed in the next fiscal year. All redemptions are at the discretion of the board. In no case shall the total number of Class B Shares, Series 2010 redeemed in any fiscal year exceed 10% of the issued and outstanding Class B Shares, Series 2010 reported on the Credit Union's audited financial statements for the preceding fiscal year, and in no case shall a redemption occur which would cause the Credit Union to fail to comply with Regulatory Capital and liquidity requirements. Note that all redemptions and retractions are subject to certain regulatory requirements.	compliance with Regulatory Capital and liquidity requirements, at the Redemption Amount, all or any portion of the Class B Shares, Series 2010 outstanding at any time five years or more after the shares were issued. Note that all redemptions and retractions are subject to certain regulatory requirements.	those shares carry voting rights. When the Class B Shares, Series 2010 carry voting rights, each Class B Share, Series 2010 carries one vote.	Regulatory Capital, and includes the remaining 10% of the Class B Shares, Series 2010 as Tier II Regulatory Capital.
Class B Investment Shares, Series 2013	The holders of Class B Shares, Series 2013 are entitled, in preference to holders of the Class A Patronage Shares, Series 1, and of the Membership Shares, but equally with the holders of the Class B Shares, Series 1, 2, 2010, 2015, 2020 and 2023, to receive Non-Cumulative cash or share dividends if, as and when declared by the board. Holders of Class B Shares, Series 2013 may, however, consent, by majority vote at a special meeting, to the prior payment of dividends to holders of a junior class of shares. Dividends are taxed as interest income and not as dividends.	The holders of Class B Shares, Series 2013 are entitled, in preference to the holders of the Class A Patronage Shares, Series 1, and the Membership Shares, but rateably with the holders of the Class B Shares, Series 1, 2, 2010, 2015, 2020 and 2023, to receive the Redemption Amount for each share held upon the liquidation, dissolution, or winding up of the Credit Union, after payment of all of its other debts and obligations.	Holders may request that the Credit Union redeem the Class B Shares, Series 2013 they hold, at any time five years or more after the issuance of these shares, or at any time after the death or expulsion from membership of the holder of the Class B Shares, Series 2013. Redemption requests are processed on a first-come, first-served basis, and any shares not redeemed in a particular fiscal year are the first shares redeemed in the next fiscal year. All redemptions are at the discretion of the board. In no case shall the total number of Class B Shares, Series 2013 redeemed in any fiscal year exceed 10% of the issued and outstanding Class B Shares, Series 2013 reported on the Credit Union's audited financial statements for the preceding fiscal year, and in no case shall a redemption occur which would cause the Credit Union to fail to comply with Regulatory Capital and liquidity requirements. Note that all redemptions and retractions are subject to certain regulatory requirements.	The Credit Union may at its initiative purchase for cancellation, subject to continued compliance with Regulatory Capital and liquidity requirements, at the Redemption Amount, all or any portion of the Class B Shares, Series 2013 outstanding at any time five years or more after the shares were issued. Note that all redemptions and retractions are subject to certain regulatory requirements.	Class B Shares, Series 2013 do not carry any voting rights, except when the Act requires that those shares carry voting rights. When the Class B Shares, Series 2013 carry voting rights, each Class B Share, Series 2013 carries one vote.	The Credit Union includes 90% of the Class B Shares, Series 2013 as Tier I Regulatory Capital, and includes the remaining 10% of the Class B Shares, Series 2013 as Tier II Regulatory Capital.

Class B Investment Shares, Series 2015	The holders of Class B Shares, Series 2015 are entitled, in preference to holders of the Class A Patronage Shares, Series 1, and of the Membership Shares, but equally with the holders of the Class B Shares, Series 1, 2, 2010, 2013, 2020 and 2023, to receive Non-Cumulative cash or share dividends if, as and when declared by the board. Holders of Class B Shares, Series 2015 may, however, consent, by majority vote at a special meeting, to the prior payment of dividends to holders of a junior class of shares. Dividends are taxed as interest income and not as dividends.	The holders of Class B Shares, Series 2015 are entitled, in preference to the holders of the Class A Patronage Shares, Series 1, and the Membership Shares, but rateably with the holders of the Class B Shares, Series 1, 2, 2010, 2013, 2020 and 2023, to receive the Redemption Amount for each share held upon the liquidation, dissolution, or winding up of the Credit Union, after payment of all of its other debts and obligations.	Holders may request that the Credit Union redeem the Class B Shares, Series 2015 they hold, at any time five years or more after the issuance of these shares, or at any time after the death or expulsion from membership of the holder of the Class B Shares, Series 2015. Redemption requests are processed on a first-come, first-served basis twice annually, and any shares not redeemed in a particular fiscal year are the first shares redeemed in the next fiscal year. All redemptions are at the discretion of the board. In no case shall the total number of Class B Shares, Series 2015 redeemed in any fiscal year exceed 10% of the issued and outstanding Class B Shares, Series 2015 reported on the Credit Union's audited financial statements for the preceding fiscal year, and in no case shall a redemption occur which would cause the Credit Union to fail to comply with Regulatory Capital and liquidity requirements. Note that all redemptions and retractions are subject to certain regulatory requirements.	The Credit Union may at its initiative purchase for cancellation, subject to continued compliance with Regulatory Capital and liquidity requirements, at the Redemption Amount, all or any portion of the Class B Shares, Series 2015 outstanding at any time five years or more after the shares were issued. Note that all redemptions and retractions are subject to certain regulatory requirements.	Class B Shares, Series 2015 do not carry any voting rights, except when the Act requires that those shares carry voting rights. When the Class B Shares, Series 2015 carry voting rights, each Class B Share, Series 2015 carries one vote.	The Credit Union includes 90% of the Class B Shares, Series 2015 as Tier I Regulatory Capital, and includes the remaining 10% of the Class B Shares, Series 2015 as Tier II Regulatory Capital.
Class B Investment Shares, Series 2020	The holders of Class B Shares, Series 2020 are entitled, in preference to holders of the Class A Patronage Shares, Series 1, and of the Membership Shares, but equally with the holders of the Class B Shares, Series 1, 2, 2010, 2013, 2015 and 2023, to receive Non-Cumulative cash or share dividends if, as and when declared by the board. Holders of Class B Shares, Series 2020 may, however, consent, by majority vote at a special meeting, to the prior payment of dividends to holders of a junior class of shares. Dividends are taxed	The holders of Class B Shares, Series 2020 are entitled, in preference to the holders of the Class A Patronage Shares, Series 1, and the Membership Shares, but rateably with the holders of the Class B Shares, Series 1, 2, 2010, 2013, 2015 and 2023, to receive the Redemption Amount for each share held upon the liquidation, dissolution, or winding up of the Credit Union, after payment of all of its other debts and obligations.	Holders may request that the Credit Union redeem the Class B Shares, Series 2020 they hold, at any time five years or more after the issuance of these shares, or at any time after the death or expulsion from membership of the holder of the Class B Shares, Series 2020. Redemption requests are processed on a first-come, first-served basis, and any shares not redeemed in a particular fiscal year are the first shares redeemed in the next fiscal year. All redemptions are at the discretion of the board. In no case shall the total number of Class B Shares, Series 2020 redeemed in any fiscal year exceed 10% of the issued and outstanding Class B Shares, Series 2020 reported on the Credit Union's audited financial statements for the preceding fiscal year, and in no case shall a redemption occur which would cause the Credit Union to fail to comply with Regulatory Capital and liquidity requirements. Note	The Credit Union may at its initiative purchase for cancellation, subject to continued compliance with Regulatory Capital and liquidity requirements, at the Redemption Amount, all or any portion of the Class B Shares, Series 2020 outstanding at any time five years or more after the shares were issued. Note that all redemptions and retractions are subject to certain regulatory requirements.	Class B Shares, Series 2020 do not carry any voting rights, except when the Act requires that those shares carry voting rights. When the Class B Shares, Series 2020 carry voting rights, each Class B Share, Series 2020 carries one vote.	Class B Shares, Series 2020 do not carry any voting rights, except when the Act requires that those shares carry voting rights. When the Class B Shares, Series 2020 carry voting rights, each Class B Share, Series 2020 carries one vote.

	as interest income and not as dividends.		that all redemptions and retractions are subject to certain regulatory requirements.			
Class B Shares, Series 2023	The holders of Class B Shares, Series 2023 are entitled, in preference to holders of the Class A Patronage Shares, Series 1, and of the Membership Shares, but equally with the holders of the Class B Shares, Series 1, 2, 2010, 2013, 2015 and 2020, to receive Non-Cumulative cash or share dividends if, as and when declared by the board. Holders of Class B Shares, Series 2023 may, however, consent, by majority vote at a special meeting, to the prior payment of dividends to holders of a junior class of shares. Dividends are taxed as interest income and not as dividends.	The holders of Class B Shares, Series 2023 are entitled, in preference to the holders of the Class A Patronage Shares, Series 1, and the Membership Shares, but rateably with the holders of the Class B Shares, Series 1, 2, 2010, 2013, 2015 and 2020, to receive the Redemption Amount for each share held upon the liquidation, dissolution, or winding up of the Credit Union, after payment of all of its other debts and obligations.	Holders may request that the Credit Union redeem the Class B Shares, Series 2023 they hold, at any time five years or more after the issuance of these shares, or at any time after the death or expulsion from membership of the holder of the Class B Shares, Series 2023. Redemption requests are processed on a first-come, first-served basis twice annually, and any shares not redeemed in a particular fiscal year are the first shares redeemed in the next fiscal year. All redemptions are at the discretion of the board and may be subject to Authority approval. In no case shall the total number of Class B Shares, Series 2023 redeemed in any fiscal year exceed 10% of the issued and outstanding Class B Shares, Series 2023 reported on the Credit Union's audited financial statements for the preceding fiscal year, and in no case shall a redemption occur which would cause the Credit Union to fail to comply with Regulatory Capital and liquidity requirements. Note that all redemptions and retractions are subject to certain regulatory requirements.	The Credit Union may at its initiative, subject to Authority approval if such approval is required, purchase for cancellation, subject to continued compliance with Regulatory Capital and liquidity requirements, at the Redemption Amount, all or any portion of the Class B Shares, Series 2023 outstanding at any time five years or more after the shares were issued. Note that all redemptions and retractions are subject to certain regulatory requirements.	Class B Shares, Series 2023 do not carry any voting rights, except when the Act requires that those shares carry voting rights. When the Class B Shares, Series 2023 carry voting rights, each Class B Share, Series 2023 carries one vote.	The Credit Union includes 90% of the Class B Shares, Series 2023 as Tier I Regulatory Capital, and includes the remaining 10% of the Class B Shares, Series 2023 as Tier II Regulatory Capital.

Capital is defined by its relative permanence (i.e., inability to be redeemed quickly), freedom from mandatory fixed charges against the earnings of the Credit Union (e.g., cumulative dividends), and subordinate position to the rights of depositors and other creditors of the Credit Union, who are paid the sums they are due before the holders of capital receive any funds. Tier 1 capital qualifies as capital under all three definitions. Tier 2 capital, in general, meets only two of the three definitions. A Credit Union's Membership Shares and retained earnings qualify as Tier 1 capital.

Description of Securities Being Offered

Class B Shares, Series 2023

<u>Issue</u>

Class B Shares, Series 2023 issuable at $1.00 each, will only be issued to members of the Credit Union. If the purchaser is a natural person (*i.e.*, an individual), he or she must be at least 18 years of age to purchase Class B Shares, Series 2023. Legal persons (*e.g.*, corporations, partnerships, trusts and unincorporated associations) may purchase Class B Shares, Series 2023. The subscription price for each Class B Share, Series 2023 will be $1.00 per share, to a maximum of 100,000,000 shares for $100,000,000.

Dividends

The holders of Class B Shares, Series 2023 are entitled, in preference to holders of any Class A Shares issued and outstanding, and of the Membership Shares, and equally with the Class B Shares, Series 1, 2, 2010, 2013, 2015 and 2020, to receive dividends if, as and when declared by the board. Holders of the Class B Shares, Series 2023 may, however, by majority vote at a special meeting, consent to the prior payment of dividends to holders of a junior class of shares (e.g., Class A Shares, or membership shares).

The payment of such dividends will be in cash, in additional Class B Shares, Series 2023 or in a combination of both, and on such terms as may be determined from time to time by the board.

For a discussion of the Credit Union's dividend policy regarding Class B Shares, Series 2023 see page 7 and pages 46 and 47.

Canadian Federal Income Tax Considerations

The following summary, which has been prepared by management, sets out the principal Canadian federal income tax consequences applicable to a holder of a Class B Share, Series 2023 who acquires the share pursuant to this offering and who, for the purposes of the *Income Tax Act* (Canada) (the "Act"), is resident in Canada and holds the share as capital property.

This summary is based on the facts contained in this offering statement and based upon managements' understanding of the provisions of the Act and the regulations thereunder as they currently exist and current published administrative policies and assessing practices of the Canada Revenue Agency (the "CRA"). This summary takes into account specific proposals to amend the Act and the regulations thereunder that have been publicly announced by the Minister of Finance (Canada) prior to the date hereof. There can be no assurance that these proposals will be enacted in their current form or at all, or that the CRA will not change its administrative and assessing practices.

This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial decision or action. This summary does not also take into account provincial, territorial or foreign tax legislation or considerations. No advance income tax ruling has been requested or obtained in connection with this offering statement, and there is a risk that the CRA may have a different view of the income tax consequences to holders from that described herein. **Investors are cautioned that this commentary is of a general nature only and is not intended to constitute advice to any particular investor. Investors should seek independent advice from their own tax advisors.**

Dividends

A holder of a Class B Share, Series 2023 will be required to include in computing income the dividends paid on the shares, whether paid in cash or in the form of additional shares. Dividends paid to a holder of a Class B Share, Series 2023 are deemed to be interest for Canadian income tax purposes. This income will be subject to income tax in the same manner as other interest income.

Redemption

On a redemption of a Class B Share, Series 2023 to the extent that the redemption proceeds exceed the paid-up capital of the share, the excess is deemed to be interest received by the holder of the Class B Share, Series 2023. This interest must be included in computing the income of the holder in the year of redemption. The proceeds of disposition under these circumstances are reduced by the amount of deemed interest. To the extent that the proceeds of disposition exceed (or are exceeded by) the adjusted cost base and reasonable disposition costs, a capital gain (or capital loss) may be realized and taxed as described below.

Other Dispositions

The disposition of a Class B Share, Series 2023 to another member, may give rise to a capital gain (or capital loss) to the extent that the proceeds of disposition exceed (or are exceeded by) the aggregate of the adjusted cost base of the Class B Share, Series 2023 and reasonable disposition costs. One-half of the capital gain is included in computing the income of the holder of the Class B Share, Series 2023 and one-half of any capital loss may be deducted but only against capital gains of the holder. Unused capital losses may be carried back to the three preceding taxation years to offset capital gains in those years, and they may be carried forward indefinitely. Under certain specific circumstances, the capital loss may be denied and therefore not available to offset capital gains of the holder. In addition, if certain criteria are met, an allowable capital loss may be considered a business investment loss and may be applied to reduce other income of the holder. This loss or a portion thereof may be carried back to the three preceding taxation years to reduce income in those years and may be carried forward for 10 taxation years before reverting to the net capital loss.

The Class B Shares, Series 2023 will be a qualified investment for registered plans (i.e., RRSP, RRIF, TFSA). The transfer of any shares by a holder to a registered plan constitutes a disposition of the shares by the holder for income tax purposes. In such circumstances, the holder is deemed to receive the proceeds of disposition for the shares equal to their fair market value at that time of such transfer, and this amount is included in computing the capital gain or loss from the disposition. Any capital loss arising on such disposition is denied to the shareholder. Interest expense related to shares transferred to an RRSP is not deductible for income tax purposes.

RRSP, RRIF and TFSA Eligible

Concentra Trust will accept Class B Shares, Series 2023 purchased in this offering to be contributed to a member's RRSP, RRIF or TFSA. The proceeds of redemption or transfer of Class B Shares, Series 2023 held in a RRSP, RRIF or TFSA will remain inside that RRSP, RRIF or TFSA as applicable, unless the annuitant or holder specifically requests otherwise in writing.

Rights on Distributions of Capital

On liquidation or dissolution, holders of Class B Shares, Series 2023 will be paid the Redemption Amount for each such share held, in priority to holders of the Class A Shares, if any, and of the Membership Shares, but rateably with Class B Shares, Series 1, 2, 2010, 2013, 2015 and 2020, and after provision for payment of all the Credit Union's other debts and obligations. Holders of Class B Shares, Series 2023 shall not thereafter be entitled, as holders of Class B Shares, Series 2023 to participate in the distribution of the Credit Union's assets then remaining but will retain any rights they may have to such a distribution as holders of Class A Shares or of Membership Shares. Distributions regarding Class B Shares, Series 2023 held in an RRSP, RRIF or TFSA will remain in that RRSP, RRIF or TFSA unless the annuitant or holder specifically requests otherwise in writing.

Voting Rights

The Class B Shares, Series 2023 are Non-Voting for the purposes of annual or special meetings of the members of the Credit Union. In the event of a proposed dissolution, amalgamation, continuance, purchase of assets representing a Substantial Portion of the Credit Union's assets, the sale, lease or transfer of a Substantial Portion of its assets, or a proposed resolution which affects the rights attaching to the Class B Shares, Series 2023 it shall hold a special meeting of the holders of Class B Shares, Series 2023 which may be held separately from the special meeting of the holders of any other series of Class B Shares, if any, including the Class B Shares, Series 1, 2, 2010, 2013, 2015 and 2020, if their rights are affected differently from those of the holders of any other series of Class B Shares. The holders of Class B Shares, Series 2023 shall have 1 vote per Class B Share, Series 2023 held at such meetings to consider such an event or resolution, which requires approval by Special Resolution. Approval at a meeting of the members of the Credit Union, and at meetings of the holders of all other classes of shares in its capital structure, including the Class A Shares, if any, will also be required.

Redemption Provisions and Restrictions

Holders of Class B Shares, Series 2023 may not request that the Credit Union redeem the shares they hold until 5 years after the issuance of those shares, except where the holder dies or is expelled from membership in the Credit Union. Redemptions for any reason are subject to the aggregate limits detailed below, and, if the approval of the Authority of that redemption is required by any applicable law, are subject to obtaining the Authority's approval.

Approval of any redemption request is in the sole and absolute discretion of the Board. The Board may not approve a request if, in the opinion of the Board, honouring such redemption request will cause the Credit Union to be unable to comply with the Regulatory Capital and liquidity requirements of section 77 of the Act.

In no case shall total redemptions approved for holders of Class B Shares, Series 2023 in any fiscal year exceed an amount equal to 10% of the total Class B Shares, Series 2023 outstanding at the end of the previous fiscal year.

The Board will consider redemption requests at its first Board meetings following December 31 and June 30 in any fiscal year, on a first come, first served basis, as evidenced by the time and date to be marked on each request when received by the Credit Union. Redemption requests not fulfilled during one fiscal year will be carried forward and considered at the next possible redemption date or withdrawn, at the option of the shareholder.

The Credit Union has the option of redeeming, at the Redemption Amount, all or any portion of the Class B Shares, Series 2023 then outstanding, subject to restrictions in the Act and to the approval of the Authority if any applicable law requires the obtaining of such approval, after giving at least 21 days' notice of its intent to redeem, at any time after the fifth anniversary of the Issue Date. If the Credit Union redeems only a portion of the Class B Shares, Series 2023 then outstanding, the Credit Union must redeem such Class B Shares, Series 2023 *pro rata* from all holders of such shares at that time. The proceeds of any redemption of Class B Shares, Series 2023 held inside an RRSP will remain inside the RRSP unless the annuitant or holder specifically requests otherwise in writing.

Note that an Authority rule permits redemption or purchase of shares for cancellation only if the shares are replaced with capital of at least the same quality as the shares being replaced without using a significant amount of the Credit Union's retained earnings, or the Credit Union can demonstrate to the Authority that its Regulatory Capital will remain substantially above regulatory minimum requirements.

Purchasers of Class B Shares, Series 2023 who are intending to include such shares in an RRSP or RRIF contract should carefully review the above redemption provisions and restrictions before proceeding. A member holding

Class B Shares, Series 2023 in a RRIF will be responsible for ensuring there are sufficient other assets in the RRIF to satisfy the minimum statutory withdrawal requirements for the RRIF annually.

Restrictions on Transfer

Class B Shares, Series 2023 may generally be transferred only to another member; all other transfers are prohibited. Transfers will be subject to the approval of the board. Transfer requests must be in writing, using a form approved by the board. Transfer requests will be tendered to the registered office of the Credit Union. Class B Shares, Series 2023 will be transferred to other members at a price equal to the current Redemption Amount. The proceeds of disposition of Class B Shares, Series 2023 held inside an RRSP, RRIF or TFSA will remain inside that RRSP, RRIF or TFSA unless the annuitant or holder specifically requests otherwise in writing.

No member, through transfers of Class B Shares, Series 2023 from other members, will be allowed to hold more Class B Shares, Series 2023 than the member would otherwise have been able to subscribe for in this initial offering (500,000 shares). **There is no market for the Class B Shares, Series 2023 issued by the Credit Union.** The Credit Union may, however, choose to maintain a list of willing buyers, and attempt to facilitate a transfer to a willing buyer rather than process a redemption when a holder of Class B Shares, Series 2023 requests redemption. This procedure will not apply when a holder of Class B Shares, Series 2023 or his or her estate, is required by law to transfer the shares to another member of the Credit Union (e.g., by the Will of a deceased shareholder) or has already located a purchaser for his or her Class B Shares, Series 2023.

Articles of Amalgamation, Articles of Amendment

Prospective purchasers of Class B Shares, Series 2023 may obtain, on request at the registered office of the Credit Union, a copy of the articles of amalgamation creating the Credit Union, the articles of amendment changing the name of the amalgamated corporation and the articles of amendment creating all of the classes and series of shares in its capital structure which were created after the Credit Union's creation by amalgamation, including the Class B Shares, Series 2023. These documents define the Credit Union's share capital structure, including the full terms and conditions of the Class B Shares, Series 2023.

Risk Factors

The Credit Union's enterprise risk management program ensures that the Credit Union will identify, monitor, and manage the significant risks it faces, assess the potential impact of those risks, and have policies and procedures in place to manage those risks effectively. The enterprise risk management program also ensures that a robust framework is in place to identify and assess emerging risks that have the potential to disrupt the Credit Union's strategic plan and ensure that appropriate controls are in place to mitigate or avoid this risk. The Credit Union's enterprise risk management program assesses the probability and severity of identified emerging risks to assess whether they should be avoided, monitored, or mitigated through the development of an appropriate action plan to address the emerging risks. The enterprise risk management framework provides an overall enterprise perspective of the financial, credit, operational, regulatory, strategic, and emerging risks facing the Credit Union. The enterprise risk management policy defines the responsibilities of the board, the Audit & Risk Committee and management in this process.

The Credit Union has identified an overall residual risk appetite of moderate. This is directed by the strategy of enhancing and building channels that make the Credit Union more relevant and competitive, developing core profitability, and developing operational efficiencies while supporting communities and building the Credit Union's brand. The Credit Union has identified risk tolerances in its various areas of risk as moderate or modest.

The following risk factors should be considered in making a decision to purchase Class B Shares, Series 2023:

Transfer and Redemption Restrictions

There is no market through which the Class B Shares, Series 2023 may be sold. Further, it is not expected that any market will develop. These securities may only be transferred to another member of the Credit Union. Note that such a transfer is not treated as redemption and is therefore not limited as outlined below. See "Restrictions on Transfer", on page 34, for a further discussion of transfers of Class B Shares, Series 2023.

The Act prohibits redemption of shares if the board of the Credit Union has reasonable grounds to believe that the Credit Union is, or the payment would cause it to be, in contravention of prescribed liquidity and Regulatory Capital adequacy tests for credit unions.

Redemptions of Class B Shares, Series 2023 are permitted at the sole and absolute discretion of the board and are not permitted during the five years following their issuance except when a shareholder dies or is expelled from membership in the Credit Union. Redemptions are limited in any fiscal year to 10% of the Class B Shares, Series 2023 outstanding at the end of the previous fiscal year. If the approval of any redemption by the Authority is required by applicable law, redemption will be subject to that approval having been obtained. Consequently, holders of Class B Shares, Series 2023 may not be able to sell or redeem their securities when they wish to do so.

Note that an Authority rule permits redemption or purchase for cancellation only if the shares are replaced with capital of at least the same quality as the shares being replaced without using a significant amount of the Credit Union's retained earnings, or the Credit Union can demonstrate to the Authority that its Regulatory Capital will remain substantially above regulatory minimum requirements.

Members who intend to hold Class B Shares, Series 2023 within an RRSP or RRIF contract should carefully review this risk factor before proceeding.

Capital Adequacy

The Act requires the Credit Union to maintain a Leverage Ratio, Total Capital Ratio, Tier 1 Capital Ratio, Capital Conservation Buffer Ratio, Retained Earnings to Risk weighted Assets Ratio and Total Supervisory Capital Ratio above certain minimums set out in the Authority rule regarding capital adequacy. As of December 31, 2022, the Credit Union was in full compliance with these regulatory requirements, and its board policy imposes limits on these ratios that exceed these minimum regulatory requirements.

For further information regarding the Credit Union's Regulatory Capital adequacy, see "Capital Adequacy" beginning on page 24.

Payment of Dividends

The Credit Union has no dividend record for the Class B Shares, Series 2023 because none of these shares are issued and outstanding. The Credit Union has, however, a dividend record for its Class B Shares, Series 1, 2, 2010, 2013, 2015 and 2020, outlined at page 46.

Past payment of dividends or other distributions in no way indicates the likelihood of future payments of dividends. The payment of dividends to the holders of Class B Shares, Series 2023 is dependent on the ability of the Credit Union to meet the Regulatory Capital requirements of the Act, and on the availability of earnings.

Dividends on Class B Shares, Series 2023 are taxed as interest and not as dividends and are therefore not eligible for the tax treatment given to dividends from taxable Canadian corporations, commonly referred to as the "dividend tax credit".

The board has stated a dividend policy for Class B Shares, Series 2023 as outlined on page 46 hereof; this policy may be changed at any time, at the discretion of the board, and the board may at any time approve exceptions to this policy. Dividends paid may therefore not be in accordance with this policy.

Credit Risk

The major activity of the Credit Union is the lending of money to members and, as a result, there exists the risk of loss from uncollectible loans. The lending policies of the Credit Union, the care and attention of staff and management in applying such policies to loan applications and loans granted, and the security taken in connection with such applications, will affect the future profitability of the Credit Union and impact on its ability to pay dividends and redeem Class B Investment Shares, Series 2023 when the members wish it to do so.

A discussion of the Credit Union's accounting policies regarding its loans to its members is found in Note 3 to the audited financial statements included in this offering statement, under the heading "Financial instruments – recognition and measurement", beginning at page 13 of Schedule A hereto.

Further discussion of the composition of the Credit Union's loan portfolio, and its allowance and provision for performing and impaired loans, appears in Note 8 to the audited financial statements beginning at page 35 of Schedule A hereto, and in the table of financial performance indicators on page 69. The Credit Union's credit risk management policy is detailed in Note 19 (a) of the audited financial statements, beginning at page 60 of Schedule A hereto.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors, such as changes in equity values, interest rates and foreign exchange rates. The Credit Union is exposed to this risk with respect to its investing and asset/liability matching activities. The market risk management policy of the Credit Union, approved by its board, requires the Credit Union's investments reflect, in order of priority, safety of principal, appropriate levels of risk-adjusted returns, diversification across various revenue generating platforms, liquidity, and the social, economic, and ethical well-being of the community. Eligible investments which may be purchased as part of the Credit Union's investment portfolio are as follows:

1. Financial assets as referred to in the Liquidity Risk section at page 40;
2. Bankers' acceptances, discounted notes, bonds, debentures, and other debt obligations issued by a bank listed in Schedule I or II of the Bank of Canada. These must be investment grade securities, meaning not less than BBB- rating as classified by the Standard & Poor's (S&P), BBB (low) by DBRS Morningstar (DBRS) and Baa3 by Moody's;
3. Commercial paper, corporate bonds, debentures, and other debt obligations issued by corporations that are widely distributed. These must also be investment grade securities, meaning not less than BBB- rating as classified by the S&P, BBB (low) by DBRS and Baa3 by Moody's; and
4. Derivative investments for hedging purposes only, as discussed under the Structural Risk section at page 42.
5. Strategic investments, which can be in the form of alternative investments and loans originated by other originators. Alternative investments can be, but are not limited to real estate, private equity, infrastructure, private credit, insurance, and leasing. They can be held in the form of subsidiaries, joint ventures (JV's) or

co-ownership, widely held shares, limited partnership units or units in a managed portfolio of public securities.

The Credit Union is also permitted to hold shares in Central 1 and in certain other system partners.

The policy also imposes limits on the amount which can be invested in any one type of investment or in any one issuer.

Alternative Investments

Alternative investments are held by the Credit Union in support of its strategic plan and are managed through a separate division of the Credit Union named the Corporate Investment Division (CID). The CID is comprised of a management team that actively oversees the investment direction and portfolio of the Credit Union's alternative investments. Investments managed and included in this division consist of alternative non-publicly traded investments (managed funds) across three asset classes: private equity, private debt, and infrastructure. The portfolio also includes separately held real estate investment properties. The Credit Union created the division to improve risk adjusted returns of the Credit Union's capital.

Unlike the investments set out in paragraphs 1 to 3 above, the alternative investments are not rated by any credit rating agency because of the risks outlined below.

Risks related to new investments are documented through detailed analysis and assessment. For new investments, the Credit Union undertakes an approval process that involves third party consultants. The investment is first recommended at the executive level, and then referred to the Strategic Oversight Committee of the board. If approved at the committee level, it is then presented to the board for approval.

At each stage of the approval process, the relevant approver receives an information package outlining the risks inherent within the investment, including a legal review and financial analysis of the investments. The due diligence process includes identifying risks and ensuring there are mitigating processes in place to minimize those risks. The diversification of the portfolio amongst the asset classes aids in risk mitigation. The investments in the managed funds are selected from recommendations made by third party consultants. These consultants are utilized by pension plans nationally and undergo due diligence regarding the experience of the managers, their historical performance, and the risk tolerance of the Credit Union.

The real estate investment properties are managed by the Credit Union's joint venture partners that have experience and a track record in the development and management of real estate. The joint venture partners provide the required quarterly reporting on the activities of the holdings.

On a quarterly basis the Strategic Oversight Committee reports to the board on the performance of the CID portfolio. The investment managers for the alternative investments provide quarterly reporting on the performance of the funds.

The chart below presents the breakdown of the investments held and managed by the CID division:

CID Managed Investments		December 31, 2022		December 31, 2021		December 31, 2020
(in thousands of dollars)						
Alternative non publically traded investments						
Private equity	$	92,745	$	97,216	$	68,270
Private debt		43,097		25,709		10,275
Infrastructure		37,601		28,711		29,890
Real estate investment properties		141,070		109,099		97,679
Total CID Managed Investments	$	314,513	$	260,735	$	206,114
CID Investments as % of Credit Union's total assets		5.46%		5.01%		4.19%
CID Investments as % of Credit Union's Regulatory Capital		87.64%		75.86%		70.46%

In 2022, the Credit Union transferred the real estate investment properties to FirstOntario Credit Union Realty Corporation. The purpose of this subsidiary is to hold the real estate investments of the Credit Union, whether common shares (including shares of a corporate general partner) or limited partnership units. The investment properties include various properties, including rental income properties for both residential and commercial customers, land held for redevelopment and rezoning purposes, affordable housing, and student rentals. The properties are located throughout Southern Ontario and are jointly owned and operated in conjunction with various third-party partners. The daily operations of the joint ventures are managed by the Credit Union's third-party investment partners through various management agreements. The joint ventures may require external funding sources, including debt facilities, to support the operation of the joint venture and purchases of the real estate properties. Overall risk exists in relation to these strategic investor partnerships and third-party relationships. FirstOntario Credit Union Realty Corporation is a private corporation and as such is subject to various taxation matters. These taxation matters may be different than those faced by the Credit Union, and could include, but are not limited to, changes in relevant tax laws, regulations and treaties or adverse interpretations by tax authorities.

The Credit Union's subsidiary, FirstOntario Credit Union GP Corporation, acts as the general partner in the real estate joint ventures carried on through limited partnerships, since the Act prevents credit unions from acting as a general partner in limited partnerships. FirstOntario Credit Union Realty Corporation owns the limited partnership units in those limited partnerships.

All the Credit Union's investments managed by CID are recorded at fair value and are presented in Note 6 within managed funds and investments (other) and within Note 10 to the audited financial statements beginning at page 42 of Schedule A hereto. The Credit Union's reported historical returns are not indicative of future results and investment returns/losses.

To value the Credit Union's assets, its valuation hierarchy groups financial assets into three levels based on the significance of the inputs used in measuring the fair value of the financial assets. The fair value hierarchy has the following levels:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly; and
- Level 3 – Inputs for assets and liabilities that are not based on observable market data.

The majority of the investments managed by the CID are categorized as Level 3. Level 3 investments are subject to increased valuation risks, as the valuation techniques include inputs not based on observable data, and the unobservable inputs have a significant effect on the investment's valuation. The fund managers use internal valuation models to value the non-publicly traded investments. Due to the complexity of the valuations involved, firm valuations are often received within three to six months after the reporting date. Given the reporting delay, the Credit Union undertakes alternative procedures to determine the change in valuation over this time horizon. The real estate holdings are valued by third party qualified commercial appraisers utilizing universally accepted valuation techniques. These external valuations are internally assessed by management to confirm applied assumptions used in the valuation models are reasonable.

The investments contain substantial levels of market pricing risk. The fair value of investments may fluctuate in response to changes in the values of investments, foreign currency exchange rates, and interest rates. The Credit Union's exposure to market risks relates to movements in the fair value of investments, whether caused by factors specific to an individual investment, or its issuer, or factors affecting instruments traded in the market. Various economic conditions and events outside the Credit Union's control may occur in the global markets and impact reported fair values of the investments.

The Credit Union holds a number of investments that are denominated in currencies other than the Canadian dollar. The Credit Union's market risk management policy permits investments outside Canada and outside the countries that are members of the Organization for Economic Cooperation and Development, subject to limits specified in that policy. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. The Credit Union holds investments of $86,150,000 (US dollars) in US dollar denominated investments and, as such, the Credit Union is exposed to currency risk as these investments will fluctuate due to changes in foreign exchange rates. The Credit Union uses hedging instruments to reduce currency risk exposure.

The Credit Union's alternative investments are not liquid. Many of these investments are long term in nature and cannot be easily converted into cash on short notice. Closed and/or private funds are not actively traded, and divestiture of the assets would be subject to pricing in secondary markets. Real estate investment properties would require an extended marketing and sales exposure periods to facilitate sales transactions. As a result of the illiquidity of these investments, a sale of the investments may result in discounts (lower values) relative to currently recorded fair values. The Credit Union holds these investments for both income and capital appreciation and does not intend to force sales of these investments.

The Credit Union's portfolio of managed funds includes funds with extended commitment and lock-in periods, agreed to when the Credit Union enters into the investment. At the fund manager's request, the Credit Union is then required to invest an amount up to the amount it committed to invest. Once invested, the Credit Union cannot generally withdraw the funds, due to extended lock-in periods and the close-ended nature of these funds. Certain funds do have redemption options available to the Credit Union.

Fair value determination of real estate investment properties utilizes professional appraisers, and valuation approaches rely on the net income approach and/or direct property comparisons. The appraisers utilize capitalization rates for discounting the future cash flows in their calculations where required. These capitalization rates are subjective to the property and site location, including business income and rental income type. Capitalization rates on properties can change over time, resulting in changes in fair value of the appraised real estate. Fair value decreases would impact the net income and other comprehensive income operating results, along with the regulatory capital, of the Credit Union in the year.

Certain real estate joint ventures as discussed above are subject to mortgages to third parties with an aggregate loan-to-value ratio of 34.9% (2021, 43.1%)

The credit risk, interest rate risk, liquidity risk and equity and other price risk of the Credit Union's investment portfolio including CID-managed investments is disclosed in the audited financial statements, note 19, Financial Risk Management, beginning at page 60 of Schedule A hereto.

During the previous three fiscal years, the Credit Union earned the following operating income on its alternative investments, providing investment returns as follows:

CID Managed Investment Income	Year ended, December 31, 2022	Year ended, December 31, 2021	Year ended, December 31, 2020
(in thousands of dollars)			
Alternative non publically traded investments			
Private equity	$ 2,217	$ 26,198	$ 8,336
Private debt	2,602	2,198	892
Infrastructure	2,946	2,054	802
Real estate investment properties	28,124	20,233	4,450
Total CID Managed Investments	$ 35,889	$ 50,684	$ 14,481
CID Investments as % of Credit Union's Net Interest and Other Income	26.14%	31.20%	12.07%

To provide prudent oversight of the Credit Union, the board has set internal policy limits which in some cases are lower than those required by regulation. These lower limits assist the Credit Union by creating a buffer between board policy limits and regulatory limits, which helps in ensuring the Credit Union remains in regulatory compliance. As of March 1, 2022, new rules introduced by the Authority required changes in the way credit unions calculate their Regulatory Capital ratios. These changes caused the Credit Union to exceed its established policy limit of 65% of Regulatory Capital for the alternative investments in limited partnership units, corporate shares, and ownership interests in unincorporated associations. While the Credit Union is currently non-compliant with the board policy limit, the Credit Union remains compliant with the regulatory limit of 70% of its Regulatory Capital in such investments. This investment share offering is expected to assist the Credit Union in resolving this non-compliance. The board has approved this non-compliance to its policy limit and expects this matter to be resolved by September 2023.

Board policy also requires that any investment in a single person, or investments in connected persons as defined in the Act, not exceed 20% of the Credit Union's Regulatory Capital. As of December 31, 2022, significant increases in the fair market value of one of the Credit Union's alternative investments caused the Credit Union to exceed this policy limit. The Credit Union, however, remains compliant with the regulatory limit of 25% of its Regulatory Capital in such investments. The board has approved this non-compliance to its policy limit and expects this matter to be resolved by September 2023.

Liquidity Risk

Liquidity risk is the risk that a financial institution will have to sell assets at a loss to meet cash demands. The Credit Union is required to establish and maintain prudent levels and forms of liquidity that are sufficient to meet its cash flow needs. The Credit Union uses various key ratios and metrics to measure and monitor its liquidity risk as described herein.

Liquidity Coverage Ratio ("LCR") is a measure that aims to ensure that a credit union has an adequate stock of unencumbered high-quality liquid assets ("HQLA") that can be converted into cash at little or no loss of value, to meet its liquidity needs for a 30-calendar day liquidity stress scenario. The standard LCR calculation is based on a 30-day horizon.

The Net Cumulative Cash Flow ("NCCF") is a liquidity metric that measures a credit union's survival horizon based on its net cumulative cash flows. It identifies potential future funding mismatches between contractual inflows and outflows for various time bands up to a 12-month time horizon. It measures a credit union's detailed cash flows, in order to capture the risk posed by funding mismatches between assets and liabilities, after the application of assumptions around the functioning of assets and modified liabilities. NCCF definitions mirror those outlined in the definition of LCR above, unless otherwise specified.

The Net Stable Funding Ratio ("NSFR") is a standard that will require credit unions to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a credit union's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR aims to limit over-reliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability. In addition, the NSFR approach offsets incentives for institutions to fund their stock of liquid assets with short-term funds that mature just outside the LCR's 30-day horizon.

The Credit Union manages liquidity risk within board policy limits to ensure the Credit Union has sufficient liquidity to meet its obligations. This is managed by monitoring cash flows and cash forecasts, maintaining a portfolio of HQLA, monitoring, and managing the remaining contractual term to maturity of its loan and deposit portfolios, and maintaining access to credit facilities. The Credit Union's liquidity risk management policy requires it to establish criteria for a pool of HQLA, which shall not be encumbered. The Credit Union achieves adequate liquidity levels through a combination of active management and maintaining adequate amounts of HQLA, organic balance sheet growth, borrowing, whole loan sales, and loan securitization. Liquidity policies and funding strategies are developed to regularly monitor the Credit Union's ability to raise funds from a variety of reliable, diverse and stable sources with a focus on the quality and tenor of funding. The Credit Union develops formal contingency funding plans to support and manage its liquidity risks.

HQLA will be invested in accordance with the Credit Union's liquidity risk management policy.

The policy then requires:

- Stress testing of the Credit Union's cash flow projections and comparing those stress-tested projections (the "stressed outflow" or "SOF") to projections of HQLA to calculate a liquidity coverage ratio ("LCR").
- Calculating a net stable funding ratio ("NSFR") by comparing prescribed factors to all the Credit Union's asset, liability, and equity accounts.
- Calculating net cumulative cash flow ("NCCF") to analyse cash flows beyond a 30-day time horizon to capture the risk posed by funding mismatches between assets and liabilities.
- Maintaining LCR over 110%, and NSFR over 110%.

- Monitoring large deposits (defined as 0.5% of total assets or more from a single person and their connected persons, or $28.8 million as of December 31, 2022).

The Credit Union's liquidity risk management policy is described in Note 19 (c) of the audited financial statements, beginning at page 65 of Schedule A hereto.

During 2022, the Authority adopted Rule 2021-003, Liquidity Adequacy requirements for Credit Unions and Caisses Populaires. The Credit Union's liquidity policy complies with this rule.

The following table outlines the Credit Union's actual LCR, NSFR, and NCCF compared to each one's regulatory minimum limit as of the end of its last three fiscal years:

Liquidity Metrics			
	As at, December 31, 2022	**As at, December 31, 2021**	**As at, December 31, 2020**
LCR	203.00%	210.00%	311.00%
Regulatory Minimum (limit)	100.00%	100.00%	100.00%
NSFR	134.00%	137.00%	139.00%
Regulatory Minimum (limit)	100.00%	100.00%	100.00%
NCCF	>12	>12	>12
Regulatory Minimum (limit) - months	3	3	3

The Credit Union maintained a liquidity position of 10.37% at its fiscal year ended December 31, 2022.

The Credit Union establishes and maintains prudent levels of liquidity that are sufficient to meet its cash flow needs, including depositor withdrawals and payment of all of its obligations as they become due. The Credit Union's target for its operating liquidity is between 8% and 16% of member deposits and the Credit Union's own borrowings. The Credit Union monitors its liquidity on a regular basis, with weekly reviews of the basic liquidity needs and detailed forecasts to support the next 30 day requirement and monthly projections of cash needs over the next three month period.

The Credit Union has access to a CDN $243 million credit facility from Central 1, and CDN $100 million credit facility from Caisse centrale Desjardins du Québec, which are available to cover shortfalls in cash resources and for liquidity purposes if warranted. For further information, see "Senior Debt" at page 49.

As part of its liquidity management practices, the Credit Union regularly securitizes Mortgage Loans and Commercial Loans through a securitization program, the details of which are provided in Note 9 to the audited financial statements at page 40 of Schedule A hereto. Total outstanding securitizations as of December 31, 2022 are $3,330,443,000. The Credit Union is a direct issuer of mortgage-backed securities pursuant to the program outlined at page 56. In addition to securitizing member Mortgage Loans, the Credit Union enters into arrangements to invest in Mortgage Loans originated by third parties and securitizes the assets under this program. The Credit Union has a securitization risk management policy as required by the Authority and is in full compliance with that policy.

Structural Risk

Structural Risk comprises exposure to interest rate movements (Basis Risk, Mismatch Risk, Yield Curve Risk and

Option Risk), and exposure to foreign exchange rate movements.

Basis Risk — The risk to income from variable rate deposits funding variable rate loans that change at different speeds.

Mismatch Risk — The risk to income from variable rate deposits funding fixed rate loans or variable rate loans funded by fixed rate deposits.

Yield Curve Risk — The risk to income from fixed rate deposits funding fixed rate loans of a different term.

Option Risk — The risk to income from options embedded in many deposit or loan products.

Foreign Exchange Risk — The risk to income that could result from changes to foreign exchange rates.

Regarding sources and uses of funds, it is the Credit Union's policy to price all loans and deposits so that, overall, a net contribution to earnings is provided and will be in line with member expectations. The Credit Union will maintain an appropriate asset mix of loans and investments consistent with the Credit Union's annual business plan; maximum terms to maturity for various products will be established by operational policy. The Credit Union will maintain an appropriate mix of deposits, reflecting member expectations and relating appropriately to the asset mix maintained by the Credit Union; maximum term to maturity for various deposits will be established by operational policy.

The Credit Union uses two types of models to assess long term structural risk. The Credit Union uses market valuation model, known as "economic value at risk" and "duration of capital", in order to evaluate exposure to yield curve risk over the long term. The permitted exposure of equity at risk to a 100 Basis Point upward or downward shock to interest rates should not exceed 10% of regulatory capital. The upper and lower limits for duration of equity are +10.0 and -10.0 years.

The Credit Union also uses an income simulation model in order to evaluate short-term repricing (i.e., mismatch) risk and basis risk. The allowable exposure to 12 months' earnings at risk for a shock to interest rates determined by the asset liability committee of senior management (currently a 100 Basis Point increase and a 100 Basis Point decrease) is 2.00% of Regulatory Capital for the next year.

The Credit Union can respond to market interest rate changes with immediate pricing adjustments to deposit and loan products, if necessary, to correct a potential mismatch, although such adjustments may not succeed in fully eliminating the mismatch; the Credit Union may also use derivatives purchased from permitted counterparties to reduce interest rate risk to an acceptable level. See page 55 for further information.

As at December 31, 2022, the Credit Union's earnings risk was -$1,030,000 for a 100 Basis Points downward shock in interest rates, and +$778,000 for a 100 Basis Points upward shock in interest rates. As at December 31, 2022 the economic value of equity was 0.15%, and the duration of capital was 0.10 years. These exposures are in compliance with the board's policy in this regard.

In the event the Credit Union's exposure to interest rate risk was to exceed the policy limits described above, future profitability could become seriously eroded should interest rates move in the direction where the Credit Union has an exposure, with a resulting negative impact on the ability of the Credit Union to pay dividends or redeem shares. Management, however, could employ one or more of several techniques, including investments in derivatives, to mitigate the potential risk.

Operational Risk

Operational risk is the risk that, in any operational area of the Credit Union (*i.e.*, capital, credit, market, structural, and liquidity management), a financial loss will result from fraud, human error, or bad judgement. Exposure to this risk can result from deficiencies or breakdowns in internal controls or processes, or human errors or dishonesty. All the Credit Union's business activities are susceptible to operational risk, including the practices for managing other risks such as credit, structural, market and liquidity.

Although operational risk can never be fully eliminated, it can be managed to create and enhance member value, successfully execute business strategies, operate efficiently, and provide reliable, secure, and convenient access to financial services. The Credit Union's operational risk management policy requires appropriate and effective internal control policies, segregation of duties, information systems, accounting and record-keeping, safeguarding of physical assets from loss or misappropriation, a list of designated counterparties for material transactions, insurance, duplicates or back-ups of records, and business continuity and disaster recovery plans, (reviewed by the Audit & Risk Committee and annually tested, with the most recent test not raising any concerns). The policy also sets out a framework under which the Credit Union can "outsource" business activities to outside service providers.

The Credit Union takes what it believes to be all necessary and reasonable steps to guard against cybersecurity threats. Employees of the Credit Union, together with an external service provider, continuously monitor all access points to the Credit Union's network from outside, and the external service provider advises the Credit Union on external threats.

In order to mitigate these operational risks, the Credit Union has implemented a number of programs as follows:

- Information technology business continuity programs, information security frameworks and governance oversight programs
- Cyber security steering committee
- Business continuity management and disaster recovery plans
- Fraud employee training programs and oversight
- Employee code of conduct policy
- Ethical business policies and market code of conduct policy
- Business contract management processes

The Credit Union operates with unionized staff who are covered by three collective agreements and represented by three unions. One of these agreements expires on the date hereof, one on March 31, 2024, and the final one on March 31, 2025. Although board and management both believe the likelihood of a strike is low, a strike of some or all the employees covered by these collective agreements is a possibility.

The Credit Union has also adopted a market code of conduct as required by the Act.

Regulatory Action

Under the Act, the Authority has the authority to place a credit union under Supervision or Administration as outlined in the definition of these terms found in the Glossary of Terms at page 9.

The Financial Transactions and Reports Analysis Centre of Canada ("FINTRAC") regularly audits the Credit Union's compliance with Canadian requirements to combat money-laundering and terrorist financing. In the event the Credit Union was found not be in compliance with these requirements, the Credit Union could be fined amounts ranging from $1 to $500,000 per violation depending on the seriousness of the violation. In the event of extensive non-compliance or little expectation of immediate or future compliance, the Credit Union could be subject to criminal penalties. FINTRAC has never imposed a fine on the Credit Union in this regard.

The pace of regulatory change is, as of the date hereof, elevated due to the coming into force of the Act on March 1, 2022 and continued ongoing issuance by the Authority of new rules and guidance.

Reliance on Key Management

The success of the Credit Union's business strategy is dependent on the ability of the Credit Union to retain its senior management personnel. The inability to retain such persons, or replace them with individuals of equal competence, could adversely affect the Credit Union's financial performance.

The Credit Union does not have employment contracts with any of its senior managers that require such persons to provide the Credit Union with notice, longer than that which would be ordinarily required by law, of the termination of his or her employment relationship with the Credit Union.

The Credit Union completes succession planning to ensure that effective leadership is in place at the executive and management levels. Employee staffing risk includes the risk of Credit Union being unable to recruit and retain the necessary talent and cultural fit, including the risk of key talent leaving the Credit Union due to disengagement or changes to the organization structure.

The Credit Union carries "key person" life insurance on its President and Chief Administrative Officer, Chief Executive Officer, Chief Risk Officer, Chief Investment Officer, Chief Strategy Officer, Chief Operating Officer, Chief Financial Officer, its Senior Vice Presidents, and its Vice Presidents.

The Credit Union has succession plans in place for all key management positions to address short-, medium-, and long-term absences of the incumbents in those positions.

Geographic, Economic and Competitive Risk

Like every other financial institution, the Credit Union is affected by periods of economic downturn that result in a lack of consumer confidence, a drop in demand for loans and mortgages, or a reduction in the level of savings.

The Conference Board of Canada's publication *Provincial Outlook, September 2022*, comments on the Canadian economy in general terms. The report comments on the Bank of Canada and US Federal Reserve actions to control inflation, with accelerated interest rate increases. Additionally, with the war continuing in Ukraine, increased pressures are placed on the world's energy supplies and changes in the price of oil is expected to have a major impact on the economy and present global uncertainties.

The Bank of Canada released a summary of governing council deliberations on January 25, 2023. It noted inflation was high and broad based but had reduced from peak in many countries around the globe. Reviewing the Canadian economy, GDP grew by 2.9% in the third quarter, stronger than the Bank expected; however, it noted softer household spending, with declines in both consumption and housing activity. Outlooks for 2023 include a 3% decline in CPI inflation due to falling energy prices and weaker goods price inflation, with slowing demand and supply chain improvements. The council was comfortable with the forecast that inflation would decline further in 2024 and reach the Bank's 2% target. A pause on further policy tightening was noted; however, the council also noted it would be prepared to raise the policy rate further if upside risks materialized in relation to the 2% inflation target.

Central 1's publication *Interest Rate Risk Forecast, December 2022*, suggests that the Bank of Canada may continue to hike rates coming into January, but, if data continues to show deterioration in the economy, future rate hikes will be avoided. Central 1 expects to see Bank of Canada complete slight rate decreases into 2024. Most economists agree that the Bank of Canada will start rate cuts in 2024 with minimal to no increases in 2023, as the country recovers from a recession. Central 1 notes the interest rate hikes in 2022 have already taken effect and started to tighten the spending of business and consumers in Canada. Global economic factors, as well as the U.S economy direction, will weigh heavily in the decision of Bank of Canada for interest rates.

Central 1's publication *Economic Analysis of Ontario November 2022*, forecasts that growth in Ontario's real Gross Domestic Product (GDP) is forecast to slip to 0.4% in 2023, after 3.0% growth in 2022. It notes the province faces a deeper housing cycle downturn and pullback in housing starts with higher interest rates, inflationary impacts and hiring slowdowns. Central 1 forecasts unemployment will increase by 0.7%, with the unemployment rate increasing to 6.4% in 2023. Central 1 predicts that housing sales will decrease from 95,500 units in 2022 to 75,200 units in 2023 before bouncing towards 85,000 in 2024 and 2025. Central 1 expects the housing downturn in the resale and new home market to be temporary, as the need for substantially more homes in the future exists as Canada looks to add nearly 500,000 new Canadians annually by mid-decade.

Overall growth in Ontario is expected to be curbed based on uncertainties in global economic environment. Central 1 notes inflation driven interest rates in Canada and have triggered rapid rate increases, shocking the economies and presenting potential recessions in Canada, the United States and other global markets.

The financial services industry continues to be extremely competitive. The major banks have expanded their traditional core banking business into other financial services including a variety of online offerings, and continue to dominate the deposit taking, lending, brokerage, and trust industries. As a result, the sheer size and increasing scope of their diversified operations represent both a challenge and an opportunity to credit unions. The success of credit unions depends largely on their ability to differentiate themselves from large banks, and on their ability to provide personal service while supplying new products and services to meet their members' needs across a variety of service delivery channels, thereby ensuring that they earn sufficient profits to continue to grow and prosper.

Dividend Record and Policy

The Credit Union paid the following dividends regarding its five most recent fiscal years, paid in the form of additional shares of the same class and series:

Dividends paid	**2018**		**2019**		**2020**		**2021**		**2022**	
	$ (000)'s	***Rate***	***$ (000)'s***	***Rate***	***$ (000)'s***	***Rate***	***$ (000)'s***	***Rate***	***$ (000)'s***	***Rate***
Class B Investment Shares, Series 1	206	4.05%	211	4.05%	202	4.05%	190	3.90%	165	3.60%
Class B Investment Shares, Series 2	261	4.05%	253	4.05%	247	4.05%	233	3.90%	216	3.60%
Class B Investment Shares, Series 2010	1,765	4.05%	1,821	4.05%	1,896	4.05%	1,867	3.90%	1,671	3.60%
Class B Investment Shares, Series 2013	38	4.05%	38	4.05%	39	4.05%	35	3.90%	32	3.60%
Class B Investment Shares, Series 2015	2,453	4.05%	2,519	4.05%	2,590	4.05%	2,501	3.90%	2,284	3.60%
Class B Investment Shares, Series 2020							7	3.60%	41	3.60%

Included in Note 15 of the audited financial statements, beginning at page 49 of Schedule A hereto, are details of the yearly dividend expense recorded on an accrual basis.

The Credit Union also paid a dividend, in each of the fiscal years noted above, of $5.00 per member, which was then used to pay for the Membership Share, if any, which that member was required by the by-laws of the Credit Union to purchase.

The Credit Union or a predecessor has declared and paid a dividend equal to or greater than the dividend policy established for the relevant series of Class B Shares in each and every year since the shares of that series were issued by the Credit Union or the appropriate predecessor.

Past payment of dividends is in no way an indicator of the likelihood of payment of future dividends.

As of the date hereof, there are no dividends accumulated or declared but not paid.

For a discussion of the priority of the various classes of shares in the payment of dividends, and the restrictions placed on the board in the declaration of dividends, see also pages 7, 8, 25 to 31 and 35.

The dividend policy of the Credit Union's board for Class B Shares, Series 2023 shall be to pay a dividend or dividends in every year in which there are sufficient profits to do so while still fulfilling all Regulatory Capital, liquidity, and operational requirements. The dividend rate shall be established by the board, in its sole and absolute discretion, based on financial and other considerations prevailing at the time of the declarations. The board shall consider whether or not a dividend shall be declared, and at what rate and in which manner, including whether in the form of additional Class B Shares, Series 2023 in cash, or partly in shares and partly in cash. Fractional shares will not be issued; dividends paid in the form of shares will be rounded down to the closest whole dollar amount before payment. The board shall consider this at least annually, and any declared dividend will be paid following each fiscal year end and before each annual general meeting of members. There can be no guarantee that a dividend will be paid each year. The board has defined an appropriate rate to be the greater of 6.0% or a rate which exceeds by 125 Basis Points the simple average of the yields on the monthly series of the Government of Canada 5-year bonds (CANSIM Identifier VI22540) as published by the Bank of Canada on its website, **www.bank-banque-canada.ca** during the Credit Union's fiscal year, for fiscal years ending on or before December 31, 2028. For fiscal years ending after that date, the board has defined an appropriate rate to be a rate equal to or greater than the rate which exceeds by 125 Basis Points the simple average of the yields on the monthly series of the Government of Canada 5-year bonds (CANSIM Identifier VI22540) as published by the Bank of Canada on its website, **www.bank-banque-canada.ca** during the Credit Union's fiscal year. The Credit Union will pro-rate the dividend in the year the shares are issued. This dividend policy is subject to change or exception at any time, at the board's discretion.

Dividends paid on Class B Shares, Series 2023 will be taxed as interest and not as dividends and are therefore not eligible for the tax treatment given to dividends received from taxable Canadian corporations, commonly referred to as the "dividend tax credit".

The dividend policy followed by the Credit Union is at the discretion of the board and is subject to change or exception at any time. Dividends paid may therefore not be in accordance with the policy outlined above.

Use of Proceeds from Sale of Securities

The principal uses of the net proceeds and purpose of this offering will be to enable the Credit Union to add to its Regulatory Capital in order to fully support the achievement of the Credit Union's strategic plan – Imagine 2026, anchored on the six pillars set out on page 5. The net proceeds will provide for the Credit Union's future growth, and development, while maintaining a prudent cushion in the amount of Regulatory Capital above regulatory requirements.

Plan of Distribution

1. The price to members for each Class B Share, Series 2023 will be $1.00.
2. There will be no discounts or commissions paid to anyone for the sale of these securities.
3. One hundred percent (100%) of the proceeds of the sale of these securities will go to the Credit Union, which will then be responsible for the payment of the costs associated with this offering statement.

It is intended that the Class B Shares, Series 2023 will be issued on multiple closing dates. Subscriptions for each closing of Class B Shares, Series 2023 shall be accepted from the offer date for that offer noted in the table below (the "Offer Date") until the earlier of the:

1. Corresponding closing date noted in the table below (the "Closing Date");
2. Time that the aggregate amount of subscriptions received for Class B Shares, Series 2023 is equal to the maximum amount of $100,000,000; or
3. Date on which the board, having not received subscriptions for the maximum $100,000,000 Class B Shares, Series 2023 and noting that six months has not yet passed since the date of this offering statement, resolves to close the offering. The shares subscribed shall be actually issued on the issuance dates noted in the table below, notwithstanding the fact that, for purposes of calculating the periods of non-redeemability outlined above, but not for the purpose of pro-rating any dividend paid in the year the Class B Shares, Series 2023 are issued (for which the actual issuance date set out below will be used), the Issue Date shall be defined as the latest date on which Class B Shares, Series 2023 are actually issued pursuant to this offering statement. Notwithstanding the above, the board may consider and, if thought appropriate, declare a dividend between each Issuance Date outlined below and the immediately following Closing Date, to provide an appropriate return to those purchasing shares in that closing and any preceding closing:

Closing No.	Offer Date	Closing Date	Issuance Date
1	Offering Statement Date	June 30, 2023	July 15, 2023
2	July 1, 2023	August 31, 2023	September 15, 2023
3	September 1, 2023	October 19, 2023	November 15, 2023

No Class B Shares, Series 2023 will be issued until the minimum aggregate subscription amount received in respect of such shares is equal to at least $10,000,000. Should the minimum subscription amount of $10,000,000 not be received by a particular Closing Date, then subscriptions for Class B Shares, Series 2023 received will be deferred until the next Closing Date, and the Class B Shares, Series 2023 subscribed for will be issued at the next applicable issuance date outlined above, subject to the minimum subscription amount of $10,000,000 having been met by the next Closing Date. If the aggregate subscription amount received by the final Closing Date of October 19, 2023 is less than $10,000,000, then this offering for Class B Shares, Series 2023 will be cancelled and withdrawn without shares being issued (in which case all funds "frozen" or held in Escrow to support subscriptions will be returned to the applicable members within 30 days thereof, with applicable interest) unless this offering has been renewed with the approval of the Chief Executive Officer of the Authority. If sales then amount to at least $10,000,000 but do not amount to $100,000,000, the Credit Union may proceed to close the offering, or apply to the Authority for a renewal of the offering for a period not exceeding six months.

Subscriptions will be accepted on a first come, first served basis, and subscription forms will be marked with the time and date accepted. The Credit Union will closely monitor subscriptions being received as total subscriptions approach the maximum. Potential purchasers making subscription requests at that time may not be allowed to subscribe for the full number or amount of shares they desire, or their subscription request may be refused. This offering may not be over-subscribed, and subscriptions will not be pro-rated.

If the funds to be used by a subscriber to pay for shares subscribed are on deposit at the Credit Union, the subscriber will authorize the Credit Union to place these funds "on hold" to guarantee payment of these shares. If the offering is completed, such hold will be released, and the authorized amount will be used to pay for the shares for which the member subscribed. If the offering is withdrawn, or if the decision to buy is reversed by the subscriber (as described on the cover of this offering statement), the hold on the funds will be released immediately thereafter.

If the funds to be used by a subscriber to pay for shares subscribed are coming from outside the Credit Union, such funds will be held in Escrow, in accounts to be trusteed by Concentra Trust, until the offering is completed or withdrawn, or until the subscriber exercises the right to reverse the decision to purchase the securities (as described on the cover of this offering statement). If the offering is completed, the proceeds will be released from Escrow and used to pay for the shares for which the member subscribed. If the offering is withdrawn, or if the subscriber reverses the decision to buy, the proceeds will be refunded in full, plus interest calculated at a rate equal to the Credit Union's 30-day term deposit rate, pro-rated for the number of days the funds were in Escrow, to those who subscribed.

The above-noted terms and conditions regarding holds on subscribers' deposit accounts and regarding Escrow accounts are detailed on the Credit Union's subscription form for Class B Shares, Series 2023 and on separate agreements, to be signed by subscribers, authorizing transfers and holds on deposit accounts and/or placement of proceeds in Escrow accounts. Copies of the subscription form and the forms for authorization of a hold on funds in deposit accounts and/or placement of funds in Escrow accounts are printed on pages 75, 76, 77 and 78.

If fully subscribed, the gross proceeds to be derived by the Credit Union from the sale of the Class B Shares, Series 2023 shall be $100,000,000. The costs of issuing these securities are not expected to exceed $300,000, and these costs, approximating $240,000 after applicable tax savings, will be deducted from the gross proceeds in arriving at the amount to be reported as share capital outstanding. The estimated maximum net proceeds of this offering are $99,760,000.

The Class B Shares, Series 2023 will not be sold by underwriters or other dealers in securities. The minimum subscription per member shall be $1,000 for 1,000 Class B Shares, Series 2023. The maximum subscription per member shall be $500,000 for 500,000 Class B Shares, Series 2023.

Market for the Securities

There is no market for the Class B Shares, Series 2023. <u>These securities may generally only be transferred to another member of the Credit Union</u>. All other transfers are prohibited.

Senior Debt (Ranking Ahead of Class B Shares, Series 2023)

The Credit Union has arranged a credit facility, totalling CDN $243 million, at Central 1. That amount is available to cover fluctuations in daily clearing volume on the Canadian-dollar chequing accounts of the members of the Credit Union, and to provide liquidity if warranted. As security for these credit facilities, the Credit Union has given Central 1 a general security agreement. The line of credit will next be reviewed as of July 31, 2023.

The Credit Union has also arranged a credit facility, totalling CDN $100 million, with Caisse centrale Desjardins du Québec. That amount is available for general corporate purposes. As security for this credit facility, the Credit Union has given Caisse centrale Desjardins du Québec a security interest in certain Mortgage Loans. The line of credit will next be reviewed as of October 30, 2023.

The balance, outstanding on the credit facilities of the Credit Union during its fiscal years ended December 31, 2022, 2021 and 2020 is outlined below.

	Canadian Dollar Operating Line			**Term Loan**		
Fiscal Period Ended	**Period Ending Balance ($000's)**	**Month End High Balance ($000's)**	**Month End Low Balance ($000's)**	**Period Ending Balance ($000's)**	**Month End High Balance ($000's)**	**Month End Low Balance ($000's)**
December 31, 2022	$122,000	$133,000	$25,000	$-	$-	$-
December 31, 2021	$-	$-	$-	$-	$-	$-
December 31, 2020	$30,000	$30,000	$-	$-	$-	$-

The Credit Union did not utilize its US dollar operating line or capital markets line during these three fiscal years.

Members' deposits in the Credit Union, as well as its other liabilities, including the derivative financial instrument liability disclosed in Schedule A hereto, secured borrowings discussed in Note 14 on page 48 of Schedule A hereto, and the mortgage securitization liabilities discussed in Note 14 on page 48 of Schedule A hereto, rank prior to the Credit Union's obligations to the holders of any class or series of its shares, including the Class B Shares, Series 2023.

Auditors, Registrar and Transfer Agent, Escrow Agent

The auditors of the Credit Union are KPMG LLP, Chartered Professional Accountants, Licensed Public Accountants, Box 976, Suite 700, 21 King Street West, Hamilton, Ontario L8P 4W7 (phone: 905-523-8200, fax: 905-523-2222, website www.kpmg.ca). KPMG LLP is independent of the Credit Union in accordance with the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario.

The registrars and transfer agents for the Class B Shares, Series 2023 are designated staff of the Credit Union and Class B Shares, Series 2023 can be purchased at any Credit Union branch.

The escrow agent for the Class B Shares is Concentra Trust, 333- 3rd Avenue North, Saskatoon, Saskatchewan S7K 2M2 (email: corporatetrust@concentra.ca, fax 306-956-3003).

Directors and Senior Management

Board of Directors

The following table sets forth the board of directors of the Credit Union:

Name/Municipality of Residence	Principal Occupation	Position/Office
Steve Boucouvalas Oakville, Ontario	Retired (Former Managing Director, Foreign Exchange & Precious Metals)	Board Vice Chair, Audit & Risk Committee Member and Chair, Strategic Oversight Committee
Peter Pennacchietti Fonthill, Ontario	Retired (Former IROC Financial Advisor)	Audit & Risk Committee Member and Strategic Oversight Committee Member
Lorri Meulendyks Stoney Creek, Ontario	Retired (Former Director, Enterprise Business Process Management)	Vice Chair, Audit & Risk Committee and Governance Committee Member
Dianne MacLean Stoney Creek, Ontario	Retired (Former Credit Union Manager)	Governance Committee Member and Strategic Oversight Committee Member
Carrie Beltzner Hamilton, Ontario	Interim President Health Care	Chair, Elections Committee and Strategic Oversight Committee Member
Julie Fleet Fisherville, Ontario	Retired (Former Financial Advisor/CFP)	Elections Committee Member and Strategic Oversight Committee Member
Lorie Peacock St. Catharines, Ontario	Retired (Former Machine Operator)	Governance Committee Member and Strategic Oversight Committee Member
Peter Scott Fonthill, Ontario	Tool & Die Maker	Audit & Risk Committee Member and Governance Committee Member
Carmelina LaVigna St. Catharines, Ontario	Entrepreneur	Audit & Risk Committee Member and Governance Committee Member
Carey Smith Oakville, Ontario	Paralegal/Consultant	Chair, Governance Committee and Elections Committee Member
Richard Sroka Brantford, Ontario	Retired (Former Accountant)	Chair, Audit & Risk Committee and Elections Committee Member
Stuart Walker Burlington, Ontario	Retired (Former Credit Manager)	Board Chair

Senior Management

The following table sets forth the senior management of the Credit Union:

Name/Municipality of Residence	Position/Title
Barry Doan, York, Ontario	Chief Risk Officer
John Doran, St. Catharines, Ontario	Chief Financial Officer
Mark Perkins, Milton, Ontario	Chief Operating Officer
Jennifer Saunders-Finlay, Stoney Creek, Ontario	President & Chief Administrative Officer
David Schurman, Oakville, Ontario	Chief Strategy Officer

Lloyd Smith, St. Catharines, Ontario	Chief Executive Officer
Kevin Tom, Hamilton, Ontario	Chief Investment Officer

All the senior managers have been employed by the Credit Union for at least the five years preceding the date hereof, except for Kevin Tom. Mr. Tom is a Chartered Financial Analyst with over 25 years experience in various credit and wealth management roles in the Credit Union and banking sector.

Lawsuits and Other Material or Regulatory Actions

As at December 31, 2022, except for actions that may be used to recover delinquent loans where the Credit Union is the plaintiff, the Credit Union is not aware of any material pending or contemplated legal proceedings to which it is a party.

The Credit Union is not aware of any regulatory actions pending or contemplated against the Credit Union.

Material Interests of Directors, Officers, and Employees

All loans to the directors, officers and employees of the Credit Union and their spouses and immediate dependent family members are made in the normal course of business, using standard credit granting criteria. The loans are made to these individuals on the same terms and conditions as loans are made to the general membership, except as to interest rate.

The aggregate value of loans in all categories to restricted parties of the Credit Union, as of December 31, 2022, amounted to $3,151,000. No allowance was required in respect of these loans.

As members of the Credit Union, directors, officers, and employees of the Credit Union each hold Membership Shares in the number required to maintain membership in the Credit Union. Accordingly, each director, officer and employee may subscribe for the Class B Shares, Series 2023 should any of such persons wish to do so.

Material Contracts

The following material contracts have been entered into by, or have bound, the Credit Union during the last three years:

- **General Security Agreement with Central 1 Credit Union, dated February 8, 2010**

  The Credit Union has granted to Central 1 a general security interest in all its assets to secure its obligations under the credit facility. The agreement outlines certain defaults; when a default has occurred, Central 1 is permitted to withhold further advances and demand repayment of all sums owing.

- **Credit Agreement with the Lenders from time-to-time parties hereto as Lenders and Caisse Centrale Desjardins as Administrative Agent and as Issuing Lender, dated July 11, 2014**

  This agreement gives the Credit Union access to its $100 million credit facility from Caisse Centrale Desjardins for its general corporate purposes. The next annual review of this credit facility is scheduled for October 30, 2023. The amount outstanding under the credit facility from time to time is secured by certain Mortgage Loans made by the Credit Union to its members. The Credit Union is required to maintain certain financial covenants, with which it is in full compliance as of the date hereof. The agreement also defines certain standard events of default, none of which has occurred as of the date hereof; if the Credit Union were to default, the credit facility could be cancelled and an immediate demand for the repayment of any amounts then outstanding made. When amounts are drawn against the facility, certain residential mortgages are pledged as security.

- **Credit Union Banking and Credit Services Agreement Form of Adhesion with Credit Union Central of Ontario Limited ("CUCO"), dated January 1, 2007**

  This agreement was assigned to Central 1 on CUCO's merger with CUCBC and regulates all aspects of the Credit Union's relationship with Central 1: banking services, credit facilities, clearing and settlement services, bill payment services, direct deposit services, pre-authorized debit services, money orders, US retail services, swaps, securities trading, custodial services, structured products services, index-linked term deposits, pooled liquidity, on-line delivered services, and fees. The agreement may be terminated by Central 1 without notice at any time if any of the Credit Union's representations or warranties are untrue, or if the Credit Union breaches any term of this agreement and such breach is not cured within 30 days after notice. The Credit Union also has the right to terminate the agreement without notice if Central 1 breaches any term of this agreement and such breach is not cured within 30 days after notice. The Credit Union also has the right to terminate the agreement by paying its indebtedness, terminating any other lending or credit agreement it has with Central 1, paying in full the amount of any guarantee it has given of the indebtedness of another person, and performing its obligations under any security agreement granted by the Credit Union in favour of Central 1.

- **Agreement with UNIFOR Local 199, effective April 1, 2020 and expiring March 31, 2023; Agreement with COPE Local 343 effective April 1, 2021 and expiring March 31, 2024; Agreement with United Steelworkers District 6, effective April 1, 2022 and expiring March 31, 2025**

  These agreements regulate all aspects of the Credit Union's relationship with its unionized employees. The Credit Union has one collective agreement negotiation pending as of the date hereof.

- **License, Maintenance, Training, and Hosting Services Agreements dated September 30, 2003 and Professional Services Agreement with Selient Inc. (formerly Homebank Technologies Inc.), carrying on business as Valeyo, dated May 30, 2003**

  These agreements provide the Credit Union with the license to use its loans origination software, and with services to have that software and the forms it produces customized for the Credit Union's needs. The agreements have 7-year terms; at the conclusion of the term or any renewal term, the Credit Union has the option to renew the agreement for a further term of five years. The agreement can be terminated by either party for breach if that breach is not corrected by the defaulting party within 30 days after receiving notice of the breach, and immediately on the insolvency or bankruptcy of the other party. The Credit Union cannot assign or transfer the agreement to anyone other than an affiliate without consent; Selient Inc. can assign or transfer the agreement on notice to the Credit Union.

- **Financial Institution Agreement with DealerAccess Canada Inc., dated October 18, 2005; first Amendment dated November 21, 2007**

  This agreement provides the Credit Union with the development and maintenance of a portal through which vehicle dealers can submit loans to the Credit Union's Dealer Finance Centre electronically for approval. The agreement is exclusive. The agreement had an initial 3-year term and renews for further 1-year terms unless either party provides notice to the other at least 60 days before the expiry of any term or renewal term of its intention not to renew the agreement. DealerAccess can suspend services to the Credit

Union for non-payment of fees. Either party can terminate the agreement immediately on the insolvency or bankruptcy of the other party, or on notice periods not exceeding 30 days for a material breach of the agreement.

- **Distribution Agreement with CUMIS Life Insurance Company, dated January 1, 2019**

  The distribution agreement provides the Credit Union with the ability to offer creditor life and disability insurance to its borrowing members. This agreement is exclusive. CUMIS pays the Credit Union administration fees for its efforts in promoting the product to its borrowing members and administering the application and claims process. The agreement has a term of five years, and thereafter renews for successive terms of 1 year unless otherwise terminated in accordance with its terms. Either party can terminate the agreement for cause or require the other party to enter into negotiations regarding the early termination of the agreement on a date not less than 180 days in the future.

- **Participation Agreement (CUMIS Personal Lines Insurance Program) with CUMIS General Insurance Company, effective September 1, 2014**

  This agreement permits the Credit Union to offer homeowners and automobile insurance products to its members. The Credit Union will not promote similar products offered by any other insurance company to its members. CUMIS compensates the Credit Union at agreed-upon rates when its members purchase insurance products from CUMIS. The agreement expired September 1, 2017, and thereafter renewed for 1-year terms unless terminated in accordance with the agreement. Either party can terminate the agreement on 90 days' prior written notice to the other party, or on five days' prior written notice to the other party in the case of material breach.

- **Services Agreement with Temenos Software Canada Ltd., signed December 5, 2014; Software Agreement signed December 8, 2014**

  These agreements set out the general terms and conditions of the relationship between the parties regarding the provision and implementation of the Credit Union's banking system. The Credit Union can terminate this agreement at any time without penalty at any time when there are no service orders in effect. The Credit Union can terminate any service order on 90 days' notice but is not entitled to a refund of fees paid and must pay fees accruing during the 90-day notice period; regarding the software service order, however, all license fees must be paid, and Temenos is also entitled to recover any expenses it has incurred in excess of those license fees. The agreement may be terminated for a material breach if that breach is not cured within 30 days. The Credit Union enjoys a non-exclusive, non-transferable, non-sub licensable license to use the software to process transactions on its own behalf and on behalf of other financial institutions as a service bureau. The initial term of the license is for 16.5 years from November 30, 2014; there is an option to renew that license for a further 10-year term at a fixed price.

- **Master Services Agreement between Everlink Payment Services Inc., Credit Union Central Alberta Limited, Central Union Central of Manitoba Limited and Credit Union Central of Saskatchewan dated February 17, 2009**

  This agreement is for the provision of switching services for shared-cash dispensing and point-of-sale services. This agreement expires on April 30, 2024. If a termination is based on a non-monetary breach of the agreement, the defaulting party must be given at least 30 days' prior notice of termination. If a termination is based on a monetary breach, the termination can occur immediately after notice of the default and a remedial period lasting 30 days. Termination can also occur immediately upon the insolvency of a party. The agreement is exclusive.

- **ISDA Master Agreement with Credit Union Central of Ontario Limited (now Central 1 Credit Union) dated May 14, 2010**

  This agreement enables the Credit Union to enter into derivative contracts with this counterparty.

  As at December 31, 2022, the Credit Union had 18 fixed pay interest rate swaps outstanding with a total notional value of $205 million and maturing between July 18, 2023 and August 18, 2026. Under the terms of these agreements, the counterparty to the swap is obligated to pay the Credit Union a variable rate and the Credit Union is obligated to pay the counterparty a fixed rate, with both payments based upon the notional value of the underlying swap. The variable rate is repriced monthly by the counterparty to the swap. The Credit Union is currently paying fixed rates in the range of 0.61% to 3.78% and is receiving a variable rate as of December 31, 2022 in the range of 4.60% to 4.74%.

  As at December 31, 2022, the Credit Union had six floating pay interest rate swaps outstanding with a total notional value of $71 million and maturing between March 15, 2027 and April 16, 2031. Under the terms of these agreements, the counterparty to the swap is obligated to pay the Credit Union a fixed rate and the Credit Union is obligated to pay the counterparty a variable rate, with both payments based upon the notional value of the underlying swap. The variable rate is repriced monthly by the counterparty to the swap. These transactions begin regular settlements in 2024, with a fixed receive rate between 3.06% and 3.68% and variable rates that will be determined at that time.

  As at December 31, 2022, the Credit Union had 17 foreign exchange swaps outstanding settling between January 30, 2023 and March 9, 2023. Under the terms of these agreements for 10 of these swaps, the counterparty to the swap is obligated to pay the Credit Union Canadian dollars (“CAD”) and the Credit Union is obligated to buy the counterparty US dollars (“USD”) back at a pre-determined rate at the time of settlement. For the remaining seven swaps, the terms of these agreements are the opposite. The counterparty to the swap is obligated to sell the Credit Union USD and the Credit Union is obligated to buy the counterparty CAD back at a pre-determined rate at the time of settlement. The Credit Union is currently holding deal exchange rates in the range of $1.33 to $1.37 as of December 31, 2022. As at December 31, 2022, the Credit Union has a net swap liability of $54.6 million USD.

  As at December 31, 2022, the Credit Union had 10 equity-linked options contracts outstanding with a total notional value of $317,000, maturing between January 9, 2023 and January 10, 2025. The contracts with Central 1 provide guaranteed rates of returns over the contract period. The Credit Union uses these contracts to manage market indexed investments provided to members. Contracts are provided against the S&P/TSX 60 index for a five-year period.

- **ISDA Master Agreement with Fédération Des Caisses Desjardins Du Québec dated September 24, 2019**

  This agreement enables the Credit Union to enter into derivative contracts with this counterparty.

  As at December 31, 2022, the Credit Union had 68 equity-linked options contracts outstanding with a total notional value of $23.2 million, maturing between April 3, 2023 and December 7, 2027. The contracts provided by Desjardins invest in a basket of selected stocks to provide guaranteed rates of returns over the contracts. The Credit Union uses these contracts to manage Canadian and Global market indexed investments provided to members. Contracts are available for Canadian and Global markets and are for periods of 3 or 5 years.

- **Credit Union Registered Plans Agency Agreement with Concentra Trust, dated November 6, 2008**

  This agreement enables the credit union to offer to its members, as the agent for Concentra Trust, RRSP, RRIF, TFSA, RESP, and RDSP contracts. The credit union retains registered plan investments on book and administers the registered plans as agent, while Concentra Trust is Trustee of the registered plans. The credit union offers fixed-term and variable deposits for all registered plan contracts trusteed by Concentra Trust. In addition, RRSP, RRIF, and TFSA contracts may contain the Credit Union's shares, either alone or in combination with fixed-term and variable deposits. RRSP and RRIF contracts may hold pension lock-in funds of federal, Ontario, and other provincial jurisdictions. The Credit Union pays Concentra Trust monthly fees for trustee services for all registered plans contracts and additional administration fees for RESP and RDSP contracts. The agreement initially had a 1-year term; that term renews automatically for a further 1-year term unless the agreement is terminated in accordance with its terms.

- **Ficanex Canadian Exchange Licensee Membership Agreement with Ficanex Services Limited Partnership dated January 31, 2005**

  This agreement provides the Credit Union with its membership in the Exchange Network, an ABM network. The Credit Union pays to the limited partnership royalty and transaction fees. The initial term is for five years; the parties can, if the Credit Union is not in default, renew the agreement for additional terms of five years. The agreement is currently renewed to August 31, 2024. Ficanex can terminate the agreement immediately if the Credit Union has not corrected a breach of the agreement within 30 days after being notified of the breach. Ficanex and the Credit Union can terminate the agreement immediately for certain breaches. Particular rules apply in mergers, depending on the membership status in the network of the entity with which the Credit Union is merging. The agreement is governed by the laws of British Columbia.

- **Master Communications Agreement (Retail) with Bell Canada, dated July 11, 2012**

  This agreement provides the Credit Union with all its required telecommunication services. The agreement continues until the term of the last remaining schedule expires or terminates. Bell may change fees for the renewal term of any schedule by providing notice of the changed fees at least 90 days before the term of the schedule expires.

- **Two Mortgage Transfer and Servicing Agreements with two different Canadian financial institutions, one dated February 1, 2015 and one dated March 10, 2014**

  These agreements allow the Credit Union to purchase certain Mortgage Loans from the counterparty financial institution, which will continue to service those loans and receive a fee for doing so. The Credit Union is then permitted to sell those Mortgage Loans to other investors for the purpose of creating mortgage-backed securities. The Credit Union is not under any obligation to acquire any Mortgage Loans from either financial institution. The agreement can be terminated for cause in accordance with its terms. The agreements can generally be assigned only on the prior written consent of the other party.

- **Master Services Agreement between Central 1 and Collabria Financial Services Inc. (Collabria) dated January 1, 2023; New Amended and Restated Credit Union Participation Agreement dated January 1, 2023**

  This agreement enables the Credit Union to provide credit cards to its members by adhering to a Master

Services Agreement between Collabria and Central 1. The agreement governs Collabria's obligations to issue the cards, the Credit Union's obligations to market them, and the revenue to which the Credit Union is entitled.

- **Mortgage Underwriting and Servicing Agreement with Canadian Mortgage Originators and Servicers, dated July 16, 2014 and October 1, 2015**

  The agreements permit the Credit Union to engage the other financial institutions to underwrite and service, on the Credit Union's behalf, certain Mortgage Loans originated and funded by the Credit Union. The agreements contains maximum limits on the Mortgage Loans to which the other financial institutions can commit the Credit Union. The agreements automatically renew annually for an indefinite number of years unless either party gives notice to the other of its intention not to renew the agreements.

- **Various Leases for Branch Premises**

  The Credit Union has entered into leases with its various landlords to obtain use of the space from which it operates its branches and its corporate office. These leases commit the Credit Union to annual base rental payments for its next five fiscal years as follows: for its fiscal year ending December 31, 2023, $2,688,000; December 31, 2024, $2,605,000; December 31, 2025, $2,078,000; December 31, 2026, $1,591,000, and December 31, 2027, $1,332,000. The Credit Union is also required to pay its *pro rata* share of certain operating costs of the building in which it leases its branches, as additional rent.

- **Master Operating Agreement with Credential Securities Inc. and Credential Asset Management Inc., effective March 15, 2018**

  This agreement, which is exclusive, enables the Credit Union to provide on-line and full-service brokerage and mutual fund dealer services to its members. Credential Securities Inc. provides staffing, operational processes, and infrastructure necessary to provide services at an industry-competitive standard that meets or exceeds the service level requirements agreed to by the parties. The services are provided through dually-employed sales representatives who are employees of both the Credit Union and of Credential Securities Inc. and/or Credential Asset Management Inc. Credential pays the Credit Union compensation for its efforts in accordance with a schedule to the agreement. The agreement continues for four years and then continues perpetually, unless terminated in accordance with its terms. The Credit Union is a limited partner in the limited partnership which now owns a portion of the limited partnership that owns the Credential companies.

  The Credit Union is a limited partner in the limited partnership which owns a 50% interest in Aviso Wealth Inc., which now wholly owns Credential Securities Inc. and Credential Management Inc.

- **Various Sponsorship Agreements**

  The Credit Union has entered into six sponsorship agreements, sponsoring various performing arts and sporting venues in the Hamilton, Niagara, and Halton regions in Southwestern Ontario for marketing and promotional purposes. These agreements obligate the Credit Union to make annual payments ranging from $90,000 to $650,000, totaling $1,585,400 annually. These agreements are currently in force until dates ranging from February 2026 to December 2042. These agreements contain options to renew for terms mutually agreed upon by the parties.

- **Various Joint Venture and Partnership Agreements**

  The Credit Union has various co-ownership and General Partner/Limited Partner (GP/LP) agreements for the construction and development of multi-unit residential housing, condominiums, student rentals, affordable housing rentals and a senior's living community. It also owns land for future development, a retail plaza, and an industrial building. These projects are located in the Waterloo, Brantford and St. Catharines, Ontario regions. The Credit Union's beneficial ownership of each project ranges from minimal in a widely held GP/LP structure to 50% in a joint venture (JV) structure. There are seven JVs that have since been transferred to newly formed, separate, and respective limited partnerships (LPs) held by the Credit Union's subsidiary FirstOntario Credit Union Realty Corporation as to the limited partnership units, and by the Credit Union's subsidiary FirstOntario Credit Union GP Corporation as general partner. The original structure and beneficial ownerships remain unchanged; however, the Credit Union now holds these structures indirectly through its subsidiaries. There are two GP/LP agreements for the construction and development of residential units located in Kitchener, Ontario. These two GP/LP structures were not included in the transfer because of the amount of the investment and are held directly by the Credit Union. In addition, a co-ownership agreement for the development of condominiums in St. Catharines, Ontario is indirectly held by the Credit Union by FirstOntario Credit Union Realty Corporation. In aggregate, the Credit Union's beneficial ownership of all the projects outlined had a fair market value of $150,277,000 as of December 31, 2022.

- **Enterprise License Agreement with VMWare International Limited, dated October 29, 2021.**

  This agreement provides the Credit Union with server and desktop virtualization and disaster recovery services. The initial term was for 1 year, and was extended for a further 3 years expiring October 27, 2025.

Management's Discussion and Analysis

The purpose of this report is to provide the readers of this offering statement with Management's insights of FirstOntario's financial results for the fiscal years ended December 31, 2020, December 31, 2021 and December 31, 2022. The audited financial statements for the fiscal year ended December 31, 2022 are attached. This report will provide an overview of growth and profitability, along with an overview of key inherent risks that financial institutions like FirstOntario face and how those risks are managed.

Overview

With over $5.7 billion in assets and over $10.5 billion in member's funds under management, the Credit Union is the fifth largest credit union in Ontario and the sixteenth largest in Canada. The Credit Union is a full-service credit union providing a wide range of credit, investment, and financial advice.

We continued to expand our operations with two acquisitions in the last three years. In 2020, we acquired the assets of Creative Arts Savings and Credit Union Limited, which is now operated as our division Creative Arts Financial. Creative Arts Financial's mission is to be the leading provider of financial services to the arts and entertainment industry. In 2022, we acquired Heritage Savings and Credit Union Inc., to support and grow membership in the Chatham-Kent region. Our full-service offerings will be expanded and made available to these new members.

Additionally, we continue to partner with various third parties through various securitization programs and arrangements. These arrangements benefit our members through enhanced operating profits and resulting growth in our Regulatory Capital. These programs are key areas of success that we continue to focus on and include in its business plans.

The Credit Union's real estate investments are now held through FirstOntario Credit Union Realty Corporation and have seen significant growth over the past three years. These investments continue to be an important and key program to support our business growth and objectives.

We continue to be a strong community partner, with pillars in our strategic plans focusing on community impact and community partnerships. Donations and community sponsorships are key to these pillars, along with volunteer time from our employees through our Blue Wave program. Financial contributions include donations to student and nutrition and food supports, affordable housing and homelessness awareness, and financial literacy, and community partnerships with local sports teams and community venues for sports and the arts. Blue Wave is a group of FirstOntario employees who volunteer in support of local community initiatives that are important to our members, together with a common goal — to promote volunteerism and make a difference. We are also proud to be a Living Wage Champion that affirms our commitment to investing in a skilled, healthy, and vibrant workforce that values the contributions of all employees and supports the growth of our communities.

Year ended December 31, 2022

In 2022, many of the COVID-19 public health restrictions ceased, resulting in a significant uptick in the economy as global economies restarted. These restarts; however, presented high inflation, driven by business supply challenges and some global economy restarts lagging due to the pandemic. The high inflation required central banks to increase their overnight rates. This resulted in rapid interest rate increases in 2022, with overnight rates increasing by 400 bps during the year. As a result of the rapid increases and inflation concerns, many businesses announced layoffs, with economists calling for a 2023 recession. Many borrowers are feeling the effects of higher interest rates, while others will be impacted at their next renewal. Interest rates for savings accounts increased with rates returning to a more normalized level. The housing market values peaked in early 2022, with rising rates causing the estimated 2023 annual sales to be lowest annual sales since 2001, with 2023 forecasted average annual prices to fall 10 percent. Housing starts are expected to decline 15 percent in 2023 on weak resale market and increased financing costs, which adds pressure to the longer-term housing shortage.

Below is a summary of the financial performance for the year:

Financial Performance Recap

The Credit Union's pre-tax income amounted to $40.4 million, a decrease of $32.6 million from 2021. The year-over-year decrease was mainly a result of a decrease in the net interest income of the Credit Union, increases in operating costs of the Credit Union and decreases in the other non-margin income in the year.

FINANCIAL PERFORMANCE 2022 VS 2021				
(thousands of dollars)	**Fiscal year ended December 31, 2022**	**Fiscal year ended December 31, 2021**	**Increase (Decrease)**	**Increase (Decrease)**
Interest and investment income	$ 177,026	$ 157,779	$ 19,247	12.20%
Interest expense	92,060	64,321	27,739	43.13%
Net interest income	84,966	93,458	(8,492)	(9.09%)
Provision for impaired loans	(1,538)	(786)	(752)	95.67%
Other income	52,314	68,974	(16,660)	(24.15%)
Net interest and other income	135,742	161,646	(25,904)	(16.03%)
Non-interest expenses	95,376	88,637	6,739	7.60%
Income before income taxes	40,366	73,009	(32,643)	(44.71%)
Income taxes	10,108	14,553	(4,445)	(30.54%)
Net income for the year	$ 30,258	$ 58,456	$ (28,198)	(48.24%)

Net interest income is primarily dependent upon growth in loans and deposits products along with impact of changes in lending and deposit rates. Net interest income decreased by $8.5 million due to negative exposure to central bank rate interest rates in the year. Additionally, an uptick in our deposit costs occurred due to increases in the interest rates and growth required to support our loan portfolios. Increased costs were required for our deposit brokers due to rate changes, offset by higher yields achieved on our variable rate loan products. Net interest income as a percentage of average assets decreased to 1.51%, from 1.85% in 2021.

Other income decreased by nearly $16.7 million to $52.3 million, a 24.2% decrease over 2021. Included in other income, banking related other income (which includes service charges, commissions, mortgage and loan fees and other operation income) decreased slightly this year, from $12.7 million to $12.6 million (1.2% decline), with slight increases in mortgage and loan fees and service charges offset by decreases in other operational income. The Credit Union's financial model emphasizes growing non-margin income and includes wealth management, securitization programs and managed investments. 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 other income sources (which includes wealth management, securitization, real estate, other investment income and real estate income) decreased by $16.5 million to $39.7 million (2021, $56.2 million), largely due to decreases in revenue from our real estate and other investments as a result of decreases in the Global and Canadian sectors of the economy resulting from governments monetary policy changes to fight inflation with rapid interest rate increases in 2022.

In 2022, non-interest expenses were $95.4 million, an increase of nearly $6.7 million or 7.6% over 2021 expenses of $88.6 million. Non-interest expenses includes salaries and benefits, administration costs, technology costs, occupancy costs and donations and community sponsorships. Salaries and benefits were $52.9 million, compared to $49.8 million in 2021. Salaries and benefits are the largest operating costs of the Credit Union, and they increased by 6.2% as a result of salary inflationary increases along with a return to more normalized use of health and dental benefits post COVID-19. Other non interest expenses excluding salaries and benefits were $42.5 million compared to $38.9 million in 2021, an increase of 9.3%. This increase was mainly due to increases in technology expenses, donations and community sponsorships, and administration costs including higher marketing costs.

The allowance for Expected Credit Losses (ECL) is calculated in compliance with IFRS 9 - Financial Instruments and the allowance is determined on an expected credit loss basis (with the allowance recognized on loan origination).

The Credit Union uses an advanced data analytics model, which utilizes the Credit Union's detailed loan level historical data, industry data and macro-economic forecasts to calculate the allowance. Watch list accounts, delinquencies, credit quality and member bankruptcies are used by the model. The allowance for ECL is monitored to ensure compliance with board policy and regulatory requirements. The overall allowance increased to $11.8 million from $10.5 million in 2021. This increase was required due to the expected impacts of the 2023 recession fears, job losses as a result of the central bank's fight on inflation, and the continued overall growth in the loan portfolio.

Statement of Financial Position Overview

In 2022, the Credit Union experienced continued on-balance sheet growth. On-balance sheet assets grew by 10.9% to $5.7 billion, and this growth came despite the new inflationary challenges impacting the economy and global recessionary fears. The Credit Union's total assets under management (AUM) increased by nearly 7.6% to $6.2 billion. AUM include the Credit Union' total assets including on and off-balance sheet loans including third party originations, member investments managed by our wealth advisors, and member credit card receivables. The acquisition of Heritage Savings and Credit Union Inc. on September 30, 2022, increased the total assets of the Credit Union by $49.7 million and increased total liabilities by $46.8 million.

(thousands of dollars)		**December 31, 2022**		**December 31, 2021**		**Increase (Decrease)**	**Increase (Decrease)**
Total Assets (on balance sheet)	$	5,763,463	$	5,199,281	$	564,182	10.85%
Total Assets under Management (AUM)	$	6,292,704	$	5,851,832	$	440,872	7.53%
Loans and advances	$	5,144,955	$	4,594,142	$	550,813	11.99%
Deposits, accrued interest payable, membership and investment shares	$	4,765,709	$	4,380,520	$	385,189	8.79%
Members' Equity and investment shares	$	347,294	$	314,207	$	33,087	10.53%

The on-balance sheet loan portfolio of the Credit Union increased by 10.9% due to organic loan growth, supported by significant 2021 increases in home prices that held for most of 2022, with a decrease in overall home prices to end 2022. Growth of the loans receivable was mainly through Mortgage Loans, which grew over $441.3 million or 12.2%. Growth in our Mortgage Loan portfolio occurred through our branches and our continued focus on building relationships with mortgage brokers and growth in loans sourced through third party lenders. New members joining the Credit Union through mortgage brokers are introduced to its full suite of financial services. Our commercial loan portfolio increased by $76.1 million or 8.8%, through a cautious approach to attracting new commercial members, keeping in mind the current economic challenges and new interest rate environment.

The Credit Union's total assets grew by over 10.9%, mainly as a result of the growth in its loans and advances. Additionally, overall investments held by the Credit Union increased by $28.3 million, mainly due to increases in the value of the Credit Union's real estate investments. These investment properties are reported on a fair value basis, and, during the year, increases in our contributions to the portfolio (net of one property sale) and fair value changes resulted in an overall increase to $141.1 million from $109.1 million in 2021. An increase in fair market valuations in the year of $24.9 million as outlined in detail in Note 10 of the audited financial statements, beginning at page 42 of Schedule A hereto, mainly attributed to the completion of properties previously under construction, net of disposals and distributions in the year.

Deposits increased by $364.7 million or 8.4% and were the main driver of the increase in total liabilities of the Credit Union. All deposit categories noted increases, including term deposit accounts, savings accounts, chequing accounts and registered plans. Members returned funds to our deposit products as a result of higher deposit rates due to prime rate increases, along with more individuals holding cash as a result of uncertainties in the economy and stock markets. Deposit increases helped to support the loan growth of the Credit Union. We have noted increased use of deposit brokers to place deposits at financial institutions, with the Credit Union's deposits sourced from deposit brokers increasing to nearly $1 billion from $0.7 billion in 2021.

Members' equity grew by $33.1 million. This increase was a result of continued positive operating results and net income realized in the year. Retained earnings, contributed surplus and accumulated other comprehensive income make up 68.6% of the Credit Union's members' equity.

Year ended December 31, 2021

2021 continued to be a year impacted by the COVID-19 pandemic, requiring the Credit Union to be agile as our governments and public health managed through the ever-changing face of the COVID-19 pandemic. Throughout this pandemic the Credit Union continued to be there for its members, providing financial services through its 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, with the monetary policy of the central bank continuing to be supportive of the economy recovering from COVID-19 by providing a low interest rate environment.

Below is a summary of the financial performance for the year:

Financial Performance Recap

The Credit Union's pre-tax income amounted to $73 million, an increase of $43.8 million from 2020. The year-over-year increase was mainly a result of an increase in the net interest income of the Credit Union and increases in the alternative non-margin income in the year.

FINANCIAL PERFORMANCE 2021 VS 2020 *(thousands of dollars)*	**Fiscal year ended December 31, 2021**	**Fiscal year ended December 31, 2020**	**Increase (Decrease)**	**Increase (Decrease)**
Interest and investment income	$ 157,779	$ 168,942	$ (11,163)	(6.61%)
Interest expense	64,321	87,800	(23,479)	(26.74%)
Net interest income	93,458	81,142	12,316	15.18%
Provision for impaired loans	(786)	(5,970)	5,184	(86.83%)
Other income	68,974	38,862	30,112	77.48%
Net interest and other income	161,646	114,034	47,612	41.75%
Non-interest expenses	88,637	84,864	3,773	4.45%
Income before income taxes	73,009	29,170	43,839	150.29%
Income taxes	14,553	4,407	10,146	230.22%
Net income for the year	$ 58,456	$ 24,763	$ 33,693	136.06%

The ability to grow net interest income is primarily dependent upon growth in loans and deposits products. Net interest income increased by $12.3 million 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 as a percentage of average assets increased to 1.85% an increase from 1.49% in 2020.

Other income increased by over $30.1 million to $68.9 million, a substantial increase over 2020. Included in other income, operational income increased by $1.3 million in the year, largely due to a gain on sale of the Niagara Street branch of $1.6 million, offset by lower service charge and other transactional revenue. The Credit Union's alternative income streams increased by $28.7 million, largely due to increases in fair market value due to improvements in applicable sectors of the economy, increasing revenue from real estate and other investments.

In 2021, non interest expenses were $88.6 million, an increase of $3.7 million over 2020 expenses of $84.9 million. Non interest expenses include salaries and benefits, administration costs, technology costs, occupancy costs and donations and community sponsorships. Salaries and benefits were $49.8 million, compared to $48.1 million in 2020. Salaries and benefits are the largest operating costs of the Credit Union, and they increased by 3.5% as a result of salary inflationary increases along with return to normalized use of health and dental benefits. Other non interest expenses excluding salaries and benefits were $38.9 million, compared to $36.8 million in 2020, an increase of 5.6%. This increase was mainly due to increases in technology expenses, donations, and community sponsorships, which were offset by lower occupancy and administration costs.

During 2021, the economy began to recover from the significant economic recession experienced in 2020. While the Credit Union's loan portfolio performed well during the pandemic, the Credit Union continued to underwrite loans with an abundance of caution. Government support for individuals and various industrial sectors during the pandemic assisted those borrowers and thereby positively impacted our credit portfolio results. The overall allowance increased to $10.5 million from $10.0 million in 2020. This increase was required due to the continued global economic factors caused by the pandemic along with increased growth in the loan portfolio.

Statement of Financial Position Overview

In 2021, the Credit Union experienced continued on-balance sheet growth. On-balance sheet assets grew by 5.6% to $5.2 billion, and this growth came despite the many challenges impacting the economy and the financial system with the ongoing pandemic. The Credit Union's total AUM increased by 2.0% to $5.8 billion as it operated through the pandemic.

(thousands of dollars)		**December 31, 2021**		**December 31, 2020**		**Increase (Decrease)**	**Increase (Decrease)**
Total Assets (on balance sheet)	$	5,199,281	$	4,922,361	$	276,920	5.63%
Total Assets under Management (AUM)	$	5,851,832	$	5,739,232	$	112,600	1.96%
Loans and advances	$	4,594,142	$	4,266,253	$	327,889	7.69%
Deposits, accrued interest payable, membership and investment shares	$	4,380,520	$	4,034,238	$	346,282	8.58%
Members' Equity and investment shares	$	314,207	$	260,051	$	54,156	20.83%

The on-balance sheet loan portfolio of the Credit Union increased by over 7% due to organic loan growth supported by significant increases in the home prices in 2021. Growth of the loans receivable was mainly through Mortgage Loans, which grew $269 million or 8.0%. Growth in the Mortgage Loan portfolio occurred through both its branch network and continued focus on building relationships with mortgage brokers. New members joining the Credit Union through mortgage brokers are introduced to its full suite of financial services. The Credit Union's commercial loan portfolio increased by $56.2 million or 6.9%, through the use of a cautious approach to attracting new commercial members, keeping in mind the current economic challenges.

The Credit Union's total assets grew by 5.6% as a result of the increases in loans receivable however was reduced by changes in its investment portfolio, through the liquidation of the liquidity reserve deposits held with Central 1 of $304.3 million. These funds were subsequently invested in marketable securities that qualify as HQLA during the year. The Credit Union's real estate investment properties realized an overall increase to the properties of $11.4 million mainly attributed to fair value changes net of distributions.

Deposits increased by $357.6 million or 9.0% and were the main driver of the increase in total liabilities of the Credit Union. Term deposit accounts decreased by $51.0 million or 2.9%, savings accounts increased by $281.9 million or 29.0%, chequing accounts grew by $128.6 million or 25.0% and registered plans decreased by $1.9 million or 0.3%. Deposit increases continue to help support the loan growth of the Credit Union. Increasingly, consumers are using deposit brokers to place deposits at financial institutions, and 15.6% of the Credit Union's deposits were sourced from deposit brokers.

Members' equity grew by $54.2 million. This increase was a result of continued strong operating results and net income realized in the year. Retained earnings, contributed surplus and accumulated other comprehensive income make up 65% of the Credit Union's members' equity.

Year-ended December 31, 2020

2020 was impacted by the COVID-19 pandemic, which was declared by World Health Organization on March 11, 2020. Central banks moved quickly to support the economy, with decreases in the key lending rate set by the Bank of Canada totalling 150 basis points. The decreased lending rates along with other monetary policies including governmental relief programs supported the economy during the pandemic. Operations of the Credit Union were adjusted to factor in regional and provincial health guidelines while providing support to our members.

Below is a summary of the financial performance for the year:

Financial Performance Recap

The Credit Union's pre-tax income amounts to $29.1 million, an increase of nearly $11.8 million from 2019. The year-over-year increase was mainly a result of an increase in the net interest income of the Credit Union and overall decreased non-interest expenses in the year.

FINANCIAL PERFORMANCE 2020 VS 2019 *(thousands of dollars)*	**Fiscal year ended December 31, 2020**	**Fiscal year ended December 31, 2019**	**Increase (Decrease)**	**Increase (Decrease)**
Interest and investment income	$ 168,942	$ 151,742	$ 17,200	11.34%
Interest expense	87,800	86,053	1,747	2.03%
Net interest income	81,142	65,689	15,453	23.52%
Provision for impaired loans	(5,970)	(3,297)	(2,673)	81.07%
Other income	38,862	42,447	(3,585)	(8.45%)
Net interest and other income	114,034	104,839	9,195	8.77%
Non-interest expenses	84,864	87,448	(2,584)	(2.95%)
Income before income taxes	29,170	17,391	11,779	67.73%
Income taxes	4,407	3,247	1,160	35.73%
Net income for the year	$ 24,763	$ 14,144	$ 10,619	75.08%

By definition, net interest income is the difference between interest paid by members on loans, and interest earned on our liquidity reserve deposits, less interest paid to members on their deposits and interest paid on outside debt obligations. The ability to grow net interest income is primarily dependent upon growth in loans and deposits products. Net interest income increased by 23.5% due to positive exposure to low interest rates, including higher prepayment penalties, a $7.9 million gain in value of our liquidity reserve deposits held as investments, and higher market interest rate spreads during the pandemic. Net interest income as a percentage of average assets increased to 1.70%, an increase from 1.49% in 2019.

FirstOntario
CREDIT UNION

Other income decreased by $3.6 million to $38.9 million. All categories of the Credit Union's other operational income showed improvement year-over-year, primarily due to increased sales activities and transaction volumes, except for our alternative income program. The Credit Union's financial model includes alternative income streams and emphasizes growing non-margin income. These other income streams include wealth management, utilizing 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 decreased by $3.6 million to $38.9 million, representing a decrease of $8.7 million in the real estate investment portfolio attributed to fair market value decreases in the year, offset by a $3.8 million increase in the securitization income portfolio. Overall, the alternative income stream remained robust and supported the continued growth of the Credit Union.

In 2020, non-interest expenses were $84.9 million, a decrease of nearly $2.5 million over 2019 expenses of $87.4 million. Non-interest expenses includes salaries and benefits, administration costs, technology costs, occupancy costs and donations and community sponsorships. Salaries and benefits were $48.1 million, compared to $51.2 million in 2019. Salaries and benefits are the largest operating cost of the Credit Union, and it decreased by 6.0%, mainly due to one-time retirement and post-employment benefits in 2019 and due to reduced recruitment activity during the pandemic. Other non interest expenses excluding salaries and benefits were $36.8 million, compared to $36.3 million in 2019, an increase of 1.4%. The increase was mainly attributable to increases in technology expenses offset by decreases in marketing costs.

During 2020, the Canadian economy experienced a material and significant economic recession due to the global pandemic. The Credit Union's loan portfolio performed well during the pandemic, given its length and extent. This positive performance resulted from governmental support programs, the absence of which would have impacted future credit losses, and as such the Credit Union prudently increased the year-end allowance. Overall ECL allowance increased to $10.0 million from $8.4 million in 2019. This increase was required a result of the global economic factors caused by the pandemic.

Statement of Financial Position Overview

In 2020, the Credit union experienced continued on- balance sheet growth. On-balance sheet assets grew by over 6% to $4.9 billion, and this growth came in light of the many challenges facing the economy and the financial system given the global pandemic. The Credit Union's total AUM slightly declined by nearly 1% to $5.7 billion as it operated through the pandemic.

(thousands of dollars)		**December 31, 2020**		**December 31, 2019**		**Increase (Decrease)**	**Increase (Decrease)**
Total Assets (on balance sheet)	$	4,922,361	$	4,629,642	$	292,719	6.32%
Total Assets under Management (AUM)	$	5,739,232	$	5,785,155	$	(45,923)	(0.8%)
Loans and advances	$	4,266,253	$	3,996,068	$	270,185	6.76%
Deposits, accrued interest payable, membership and investment shares	$	4,034,238	$	3,659,537	$	374,701	10.24%
Members' Equity and investment shares	$	260,051	$	238,552	$	21,499	9.01%

The on-balance sheet loan portfolio of the Credit Union increased by over 6%, partially attributed to the acquisition of $14.4 million of loans from Creative Arts Savings and Credit Union Limited along with organic loan growth. The Creative Arts transaction involved $29.2 million of total liabilities and $29.8M of total assets which now appear on the Credit Union's financial statements. Growth of the loans receivable was mainly through Mortgage Loans, which grew $269.2 million or 8.7%. Additional ECL provisioning was setup in the year to account for the pandemic and additional expected credit losses.

Additionally, the Credit Union's investment portfolio increased in value by $19.7 million or 3.7%, mainly attributed to the fair value increases in the Credit Union's real estate investment properties.

Deposits increased by $372.1 million or 10.3% and were the main driver of the increase in total liabilities of the Credit Union. The pandemic caused worries for many individuals, with various governmental support programs implemented to provide various individuals and industries with financial support. As well, reduced spending, resulting from limited travel opportunities, remote work, and lockdowns, supported higher deposit balances. Term deposit accounts decreased by $25.1 million or 1.4%, savings accounts increased by $247.4 million or 34.1%, chequing accounts grew by $120.5 million or 30.6%, and registered plans increased by $29.3 million or 4.1%. Deposit increases helped support the loan growth of the Credit Union. Increasingly, consumers are using deposit brokers to place deposits at financial institutions and as of December 31, 2020, 16.4% of the Credit Union's deposits were sourced from deposit brokers.

Members' equity grew by over $21 million. This increase was a result of strong operating results and net income realized in the year. Retained earnings, contributed surplus and accumulated other comprehensive income make up 56.8% of the Credit Union's members' equity.

Allowance for Impaired Loans

The allowance for expected credit losses is governed by board policy and reviewed on an annual basis and approved by the Audit & Risk Committee of the board. FirstOntario applies the three-stage approach to measure the allowance for credit losses, using the expected credit losses (ECL) approach as required under IFRS 9. The allowance is calculated based on the stage in which the financial asset is determined to be at the reporting date. The financial assets migrate through the three stages based on the change in their risk of default since initial recognition. The allowance is monitored by management on a monthly basis. Watch list accounts, delinquencies, credit quality, bankruptcy trends and economic trends are considered as part of the credit provisioning process. The allowance for credit lossesis monitored to ensure compliance with board policy and regulatory requirements.

The following is a chart that provides a summary of our allowance for expected losses, loan write-offs and recoveries, and annual provision for credit losses. The Credit Union's loan portfolio continues its strong performance due to adherence to conservative lending practices, outperforming industry norms.

Allowance for Impaired Loans			
(thousands of dollars)	**As at December 31, 2022**	**As at December 31, 2021**	**As at December 31, 2020**
On Balance Sheet Loan Portfolio	$ 5,131,835	$ 4,584,572	$ 4,256,776
Allowance for expected credit losses			
Stage 1 (12 month ECL)	$ 5,733	$ 4,911	$ 4,045
Stage 2 (lifetime ECL non credit impaired)	1,997	1,317	4,668
Stage 3 (lifetime ECL credit impaired)	4,046	4,238	1,324
Allowance for expected credit losses	$ 11,776	$ 10,466	$ 10,037
Allowance for expected credit losses (Reconciliation)			
Opening Balance	$ 10,466	$ 10,037	$ 8,436
Write-offs	(299)	(499)	(4,591)
Recoveries	71	142	172
Annual Provision for impaired Loans	1,538	786	6,020
End of Year Balance	$ 11,776	$ 10,466	$ 10,037
Summary of impaired loans			
Gross amount of loans identified as impaired	$ 34,822	$ 31,071	$ 23,846
Related security less expected costs	30,776	26,833	22,522
Stage 3 (ECL credit impaired)	$ 4,046	$ 4,238	$ 1,324
% of on balance sheet loan portfolio			
Write-offs	0.01%	0.01%	0.11%
Recoveries	0.00%	0.00%	0.00%
Annual provision for impaired loans	0.03%	0.02%	0.14%
Total Allowance (%) of On Balance Sheet Loans	*0.23%*	*0.23%*	*0.24%*
Stage 3 (ECL credit impaired) (%) of On Balance Sheet Loans	0.08%	0.09%	0.03%

The Credit Union's results in 2020 were materially impacted by a write-off of one commercial loan amounting to $4,149,000. Adjusting for this one large commercial loan write-off in 2020, the adjusted 2020 write-offs amounted to $441,000, in line with write-offs in 2021 and 2022.

The Credit Union's stage 3 allowance for impaired loans is determined by taking the gross amount of our impaired loans less the value of related security, after costs. Our gross impaired loans increased to $34.8 million as of December 31, 2022 (2021 - $31.1 million; 2020 - $23.8M million). The Credit Union holds security related to these loans of $30.8 million (2021 - $26.8 million; 2020 - $22.5 million).

FirstOntario uses an internal risk rating grid to assess and monitor new loans and our loan portfolio, both retail and commercial. The majority of the retail loan portfolio, 92%, has risk ratings of B or better as of December 31, 2022 (2021 – 93%; 2020 – 83%). The commercial portfolio has 97% of loans rated as Satisfactory or better as of December 31, 2022 (2021 – 97%; 2020 – 97%).

These measures and the performance of the loan portfolio indicate FirstOntario has a very strong lending operation.

Capital Risk Management

Capital is monitored monthly on both a capital leverage and a risk weighted basis. Capital adequacy is assessed during the annual planning process. Future capital requirements are based on planned asset growth and investments in fixed assets.

The following chart summarizes FirstOntario's capital position:

Capital Metrics			
(thousands of dollars)	**As at December 31, 2022**	**As at December 31, 2021**	**As at December 31, 2020**
Capital	$ 358,878	$ 343,693	$ 292,542
Leverage Ratio	6.11%	6.61%	5.94%
Regulatory Minimum (limit)	3.00%	4.00%	4.00%
Tier 1 Capital Ratio	11.38%	*Not applicable*	*Not applicable*
Regulatory Minimum (limit)	6.50%	*Not applicable*	*Not applicable*
Retained Earnings to Risk Weighted Assets Ratio	7.98%	*Not applicable*	*Not applicable*
Regulatory Minimum (limit)	3.00%	*Not applicable*	*Not applicable*
Capital Conservation Buffer	4.04%	*Not applicable*	*Not applicable*
Regulatory Minimum (limit)	2.50%	*Not applicable*	*Not applicable*
Total Capital Ratio (prior would be Risk weighted Capital Ratio)	12.04%	13.55%	12.90%
Regulatory Minimum (limit)	8.00%	8.00%	8.00%
Total Supervisory Capital Ratio	12.04%	*Not applicable*	*Not applicable*
Regulatory Minimum (limit)	10.50%	*Not applicable*	*Not applicable*

On both the leverage and risk weighted ratio basis, capital is well in excess of regulatory minimums. In addition, our Tier 1 capital was 11.38% on December 31, 2022 is well in excess of the regulatory minimum of 6.5%. For all above noted capital metrics and ratios, the Credit Union is within compliance of regulatory minimums.

During 2022, the Credit Union adopted the new capital ratios and requirements issued by the Authority in the year. As a result, comparison ratios do not exist in certain cases. The comparative ratios and regulatory capital presented are reported based on rules in place at the date of calculation and have not been adjusted to reflect changes implemented in 2022.

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The following table presents financial performance indicators for the fiscal years ended December 31, 2022, 2021 and 2020. These figures are based on the audited financial statements as of each fiscal year-end. (Figures provided as Basis Points ("bps") are calculated on the basis of average assets held during the fiscal year calculated using a simple average of the opening and closing total asset balance.)

Financial Performance Indicators	**Year Ended December 31, 2022**	**Year Ended December 31, 2021**	**Year Ended December 31, 2020**
Profitability			
Total assets ($000s)	$5,763,463	$5,199,281	$4,922,361
Consolidated net income for the year ($000s)	$30,258	$58,456	$24,763
Comprehensive income for the year (bps)	55	116	52
Operating margin before provision for impaired loans and other income (bps)	155	185	170
Provision for impaired loans (bps)	(3)	(2)	(12)
Other income (bps)	95	136	81
Donations and community sponsorships	4	3	1
Operating expenses excluding donations and community sponsorships	170	172	177
Provision for income taxes (bps)	19	29	9
Other comprehensive income (loss) (bps)	11	2	(5)
Compliance with Capital Requirements			
Leverage Ratio	6.11%	6.61%	5.94%
Total Capital Ratio	12.04%	13.55%	12.90%
Loan Composition			
Total gross loans outstanding ($000s)	$5,131,835	$4,584,572	$4,256,776
Mortgage Loans (% of gross loans outstanding)	79.15%	78.97%	78.72%
Personal Loans (% of gross loans outstanding)	2.50%	2.15%	2.27%
Commercial Loans (% of gross loans outstanding)	18.33%	18.84%	18.93%
Agricultural Loans (% of gross loans outstanding)	0.00%	0.00%	0.00%
Institutional Loans (% of gross loans outstanding)	0.00%	0.00%	0.00%
Unincorporated Association Loans (% of gross loans outstanding)	0.02%	0.04%	0.08%
Loan Quality			
Allowance for impaired loans (% of gross loans outstanding)	0.23%	0.23%	0.24%
Allowance for Mortgage Loans as % of Mortgage Loans	0.56%	0.02%	0.02%
Allowance for Personal Loans as % of Personal Loans	1.39%	0.90%	1.25%
Allowance for Commercial Loans as % of Commercial Loans	0.15%	0.19%	0.19%
Allowance for Agricultural Loans a % of Agricultural Loans	0.00%	0.00%	0.00%
Allowance for Institutional Loans a % of Institutional Loans	0.00%	0.00%	0.00%
Allowance for Unincorporated Association Loans a % of Unincorporated Association Loans	0.00%	0.00%	0.00%
Provision for Impaired Loans as % of Total Assets	0.03%	0.02%	0.12%
Bad debt expense to average assets	0.03%	0.02%	0.12%
Other Factors			
Total members' deposits ($000s)	$4,710,706	$4,345,963	$3,988,368
Average liquidity (% of member deposits + borrowing)	10.32%	13.36%	14.20%
Asset growth (% change)	10.85%	5.63%	6.32%
Return (net income before taxes) on average assets	0.74%	1.44%	0.61%
Financial margin (net interest income) to average assets	1.55%	1.85%	1.70%
Total Regulatory Capital ($000s)	$358,878	$343,693	$292,542
Regulatory Capital growth (% change)	4.42%	17.49%	10.22%

Further analysis is presented in the audited financial statements at December 31, 2022 for the year then ended that are attached hereto as Schedule A.

FirstOntario
CREDIT UNION

Management's Responsibility for Financial Information

The accompanying Consolidated Financial Statements 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, 2020 (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 examinations 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 auditor's report is included as part of the Consolidated Financial Statements.

Lloyd Smith, CPA, CGA, CCE	**John Doran, CPA, CA, CFA**
Chief Executive Officer	**Chief Financial Officer**

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

AUDITORS' CONSENT

We, KPMG LLP, consent to the use of our report to the Members of FirstOntario Credit Union Limited (the "Entity") on the consolidated financial statements of the Entity, which comprise the consolidated statement of financial position as at December 31, 2022, the consolidated statements of income, comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies in the offering statement dated March 31, 2023 relating to the issuance and sale of Class B Special Shares, Series 2023 of the Entity. Our report is dated March 6, 2023.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
April 20, 2023
Hamilton, Canada

Statement Of Other Material Facts

There are no other material facts relating to the issues of securities in this offering statement which have not been suitably disclosed herein.

FirstOntario
CREDIT UNION

Board Resolution

February 21, 2023

"The Board of Directors of FirstOntario Credit Union Limited approves the issue of Series 2023 Class B Special Shares (Class B Shares, Series 2023), subject to the Articles of Incorporation of FirstOntario Credit Union Limited as amended, and as described in the Offering Statement to be dated March 31, 2023."

I certify the above to be a true copy of a resolution adopted by the Board of Directors of FirstOntario Credit Union Limited at their meeting of February 21, 2023.

E. Logie
____

Edward Logie, Corporate Secretary

FirstOntario
CREDIT UNION

Certificate of Disclosure

The foregoing, constitutes full, true, and plain disclosure of all material facts relating to the securities offered by this Offering Statement as required by Part IV of the Credit Unions and Caisses Populaires Act, 2020, and the regulations and rules thereunder.

Dated at Stoney Creek, Ontario, April 20, 2023

____
Lloyd Smith, CPA, CGA, CCE, Chief Executive Officer

____
Stuart Walker, Board Chair

FirstOntario
CREDIT UNION

Subscription Form — Retail Members

Please accept my subscription for (_______) (number of shares)
Class B Shares, Series 2023 (at $ 1.00 per share) of FirstOntario Credit Union Limited

Member's Name (as it appears on file) ______________ Social Insurance Number ______________

Joint Member's Name ______________ Social Insurance Number ______________

Account # ______________ Address ______________

City ______________ Province ______________ Postal Code ______________

Source of Funds (Please complete all that apply)

1. $ _______________ already on deposit at the Credit Union. I have signed a separate authorization form to place these funds on hold until this offering is completed or withdrawn.

2. $ _______________ coming from outside the Credit Union. I have signed a separate authorization form to place these funds in Escrow until this offering is completed or withdrawn.

Type of Share Ownership (Please complete all that apply)

1. $ _______________ of the shares being subscribed are to be put into my RRSP at the Credit Union.

2. $ _______________ of the shares being subscribed are to be put into my RRIF at the Credit Union.

3. $ _______________ of the shares being subscribed are to be put into my TFSA at the Credit Union.

4. $ _______________ of the shares are to be held by me outside any RRSP(s), RRIF(s), or TFSA(s) I may have.

By signing this form, I/we hereby acknowledge that I /we are members of the Credit Union, I/we have received and read in its entirety a copy of the offering statement dated March 31, 2023 for the Credit Union's Class B Shares, Series 2023, **Serial Number _____________,** including the audited financial statements attached thereto as Schedule A, and that I/we have noted in particular the Description of Securities Being Offered as set out on pages 30 to 34 and the Risk Factors starting on page 34. I/we also understand that the securities being purchased are NOT deposits and are NOT insured by the Financial Services Regulatory Authority of Ontario, and that dividends on these securities are NOT guaranteed. I/we have considered whether or not I/we should obtain independent advice on the suitability of this investment to my/our particular financial situation and have either obtained such advice or determined that I/we do not require such advice.

Member's Name	Signature	Date	Time (a.m./p.m.)
Joint Member's Name	Signature	Date	Time (a.m./p.m.)

For Office Use Only

Date and Time (a.m./p.m.) ______________

Accepted by: Employee's Name ______________ Signature ______________ Branch # ______________

FirstOntario
CREDIT UNION

Subscription Form — Business Members

Please accept my subscription for (______________) (number of shares)
Class B Shares, Series 2023 (at $ 1.00 per share) of FirstOntario Credit Union Limited

Legal Business Name (As it appears on file) Corporation/Partnership/Association

Account # Address

City Province Postal Code

Source of Funds (Please complete all that apply)

$______________ already on deposit at the Credit Union. I have signed a separate authorization form to place these funds on hold until this offering is completed or withdrawn.

$______________ of the shares are to be held.

By signing this form, I/we hereby acknowledge that I /we are members of the Credit Union, I/we have received and read in its entirety a copy of the offering statement dated March 31, 2023 for the Credit Union's Class B Shares, Series 2023, **Serial Number ____________,** including the audited financial statements attached thereto as Schedule A, and that I/we have noted in particular the Description of Securities Being Offered as set out on pages 30 to 34 and the Risk Factors starting on page 34. I/we also understand that the securities being purchased are NOT deposits and are NOT insured by the Financial Services Regulatory Authority of Ontario, and that dividends on these securities are NOT guaranteed. I/we have considered whether or not I/we should obtain independent advice on the suitability of this investment to my/our particular financial situation and have either obtained such advice or determined that I/we do not require such advice.

Authorized Signatory Signature Date Time (a.m./p.m.)
Authorized Signing Officer, I/we have the authority to bind the Corporation/Partnership/Association

Authorized Signatory Signature Date Time (a.m./p.m.)
Authorized Signing Officer, I/we have the authority to bind the Corporation/Partnership/Association

Name of Corporation/Partnership/Association

For Office Use Only

Date and Time (a.m./p.m.)

Accepted by: Employee's Name Signature Branch #

FirstOntario CREDIT UNION

Authorization to Place Funds in Escrow

Member's Name	Signature	Date

I have subscribed today to buy a total of $____________ Class B Shares, Series 2023 of FirstOntario Credit Union Limited (the "Credit Union"). By signing this form below, I hereby authorize the Credit Union to place the funds specified below, as soon as such funds are made payable to the Credit Union, into an Escrow account, to be trusteed by Concentra Trust, to guarantee payment for these shares.

This hold will be released only in one of the following four manners:

1. Upon the offering being closed, Concentra Trust will release the funds from Escrow to the Credit Union to pay for the shares on the Issue Date.
2. If the offering is withdrawn or cancelled for any reason, Concentra Trust will immediately release the non-registered funds from Escrow and pay them to me, together with interest calculated at the Credit Union's 30-day term deposit rate, prorated for the number of days such funds were in Escrow.
3. If I exercise my right to reverse my decision to purchase these shares within two days, excluding weekends and holidays, following receipt of a copy of the offering statement, dated March 31, 2023, for the Class B Shares, Series 2023 Concentra Trust will immediately release the non-registered funds from Escrow and pay them to me, together with interest calculated at the Credit Union's 30-day term deposit rate, prorated for the number of days such funds were in Escrow.
4. If all or part of such funds which are used to purchase shares are identified as being part of a registered plan contract, the registered funds will be transferred directly into a registered plan contract of the same type held in Escrow at the Credit Union under the control of Concentra Trust. If not used to pay for shares under the terms outlined above, the registered funds will stay in such registered plan contract until I have given Concentra Trust direction as to their disposition.

The source of fund(s) and dollar amounts(s) to be placed in Escrow under this agreement is (are):

Source

Credit Union Witness Name	Signature	Member's Name/Subscriber	Signature

Credit Union Witness Name	Signature	Joint Member's Name/Subscriber	Signature

FirstOntario CREDIT UNION

Authorization to Place Funds on Hold

Member's Name	Signature	Date

I have subscribed today to buy a total of $____________ Class B Shares, Series 2023 of FirstOntario Credit Union Limited (the "Credit Union"). By signing this form below, I hereby authorize the Credit Union to place these funds on hold to guarantee payment for these shares.

This hold will be released only in one of the following three manners:

1. Upon the offering being closed, the Credit Union will release the hold and then debit the accounts to pay for the shares on the Issue Date.
2. If the offering is withdrawn or cancelled for any reason, the Credit Union will release the hold immediately.
3. If I exercise my right to reverse my decision to purchase these shares within two days, excluding weekends and holidays, following receipt of a copy of the offering statement, dated March 31, 2023, for the Class B Shares, Series 2023 the Credit Union will release the hold on funds immediately upon being informed of such reversal.

The Credit Union account(s) and dollar amounts(s) to be placed on hold under this agreement is (are):

Branch #	Account #	Type	Sub #	$

Credit Union Witness Name	Signature	Member's Name/Subscriber	Signature

Schedule A — Audited Financial Statements as of December 31, 2022

FirstOntario
CREDIT UNION

2022 CONSOLIDATED FINANCIAL STATEMENTS OF FIRSTONTARIO CREDIT UNION LIMITED

CONTENTS

REPORT ON MANAGEMENT RESPONSIBILITY

The accompanying Consolidated Financial Statements 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, 2020 (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 examinations 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 auditor's report is included as part of the Consolidated Financial Statements.

Lloyd Smith, CPA, CGA, CCE Chief Executive Officer	John Doran, CPA, CA, CFA Chief Financial Officer

March 6, 2023

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, 2020 (Ontario) and Section 36 of Ontario Regulation 105/22. 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 12 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.

R Sroka

Richard Sroka
Chair, Audit and Risk Committee

March 6, 2023

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

INDEPENDENT AUDITOR'S 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, 2022
- the consolidated statement of income for the year then ended
- the consolidated statement of 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, 2022 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 "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's 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.

Auditor’s 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 auditor’s 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 auditor's 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 auditor's 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 represent 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities with the Credit Union to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada

March 6, 2023

FIRSTONTARIO CREDIT UNION LIMITED
Consolidated Statement of Financial Position

As at December 31, 2022, with comparative information for 2021

(In thousands of dollars)	**2022**	2021
Assets		
Cash and cash equivalents (note 5)	**$ 16,132**	$ 34,638
Investments in debt securities (note 6)	**203,993**	229,488
Investments in equity instruments (note 6)	**181,138**	159,345
Derivative financial instruments (note 18)	**8,961**	5,211
Loans and advances (note 7)	**5,144,955**	4,594,142
Current tax assets	**4,224**	-
Investments in joint ventures (note 10)	**141,070**	109,099
Fixed assets (note 11)	**29,073**	32,962
Intangible assets (note 12)	**19,457**	19,828
Pension assets (note 22)	**1,906**	-
Other assets	**12,554**	14,568
	$ 5,763,463	$ 5,199,281
Liabilities		
Deposits (note 13)	**$ 4,710,706**	$ 4,345,963
Accounts payable and accrued liabilities	**21,991**	42,665
Accrued interest payable	**35,244**	14,541
Income taxes payable	**-**	4,201
Derivative financial instruments (note 18)	**771**	1,969
Secured borrowings (note 14)	**122,000**	-
Securitization liabilities (note 14)	**467,813**	421,736
Membership shares (note 15)	**8,837**	8,528
Investment shares (note 15)	**10,922**	11,488
Lease liabilities (note 17)	**13,069**	14,781
Deferred tax liabilities (note 21)	**21,034**	11,892
Pension and other employee benefit obligations (note 22)	**3,782**	7,310
	5,416,169	4,885,074
Members' Equity		
Investment shares (note 15)	**108,780**	110,476
Contributed surplus	**8,178**	5,474
Retained earnings	**229,819**	203,572
Non-controlling interest	**(135)**	(150)
Accumulated other comprehensive income (loss)	**652**	(5,165)
	347,294	314,207
	$ 5,763,463	$ 5,199,281

See accompanying notes to Consolidated Financial Statements.

On behalf of the Board:

Stu Walker
Board Chair

Richard Sroka
Chair, Audit and Risk Committee

FIRSTONTARIO CREDIT UNION LIMITED
Consolidated Statement of Income

For the year ended December 31, 2022, with comparative information for 2021

(In thousands of dollars)	2022	2021
Interest Income		
Loans and advances (note 7)	**$ 170,208**	$ 156,086
Investment income	**4,555**	1,693
Swap agreements	**2,263**	-
	177,026	157,779
Interest Expense		
Members' deposits (note 13)	**75,678**	47,684
Secured borrowings and securitization liabilities (note 14)	**15,316**	15,048
Dividends on membership and investment shares (note 15)	**1,066**	956
Swap agreements	**-**	633
	92,060	64,321
Net Interest Income	**84,966**	93,458
Provision for impaired loans (note 8)	**(1,538)**	(786)
Other income (note 23)	**52,314**	68,974
Net Interest and Other Income	**135,742**	161,646
Non-interest Expenses		
Salaries and employee benefits	**52,885**	49,775
Administrative	**16,062**	14,885
Technology	**16,260**	14,718
Occupancy	**7,931**	7,728
Donations and community sponsorship	**2,238**	1,531
	95,376	88,637
Income Before Income Taxes	**40,366**	73,009
Income taxes (note 21)	**10,108**	14,553
Net Income	**$ 30,258**	$ 58,456
Net Income attributable to FirstOntario Credit Union Limited	**30,243**	58,415
Net Income attributable to non-controlling interest	**15**	41
Net Income	**$ 30,258**	$ 58,456

See accompanying notes to Consolidated Financial Statements.

FIRSTONTARIO CREDIT UNION LIMITED
Consolidated Statement of Comprehensive Income

For the year ended December 31, 2022, with comparative information for 2021

(In thousands of dollars)	**2022**	2021
Net Income	**$ 30,258**	$ 58,456
Other Comprehensive Income (Loss)		
Items that are or may be reclassified subsequently to net income:		
Debt securities measured at fair value through other comprehensive income:		
Net unrealized gain from change in fair value	**110**	1,927
Net amount transferred to earnings	**(2,860)**	(3,770)
Related income tax recovery (note 21)	**508**	341
Cash flow hedges:		
Net gain (loss) on cash flow hedges	**3,946**	(252)
Net gain on cash flow hedges transferred to earnings	**326**	1,644
Related income tax expense (note 21)	**(779)**	(258)
Items that are not recycled or reclassified to net income:		
Actuarial gain on employee benefits, net of tax (notes 21, 22)	**4,566**	1,451
	5,817	1,083
Total Comprehensive Income	**$ 36,075**	$ 59,539

See accompanying notes to Consolidated Financial Statements.

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

For the year ended December 31, 2022, with comparative information for 2021

(In thousands of dollars)	Investment shares	Contributed surplus	Retained earnings	Non-controlling interest	Accumulated Other Comprehensive Income (Loss) Fair value reserve	Cash flow hedging reserve	Employee benefits	Total
Balance, January 1, 2022	**$ 110,476**	**$ 5,474**	**$ 203,572**	**$ (150)**	**$ (1,502)**	**$ (1,590)**	**$ (2,073)**	**$ 314,207**
Shares issued	**3,996**	**-**	**-**	**-**	**-**	**-**	**-**	**3,996**
Shares redeemed	**(5,692)**	**-**	**-**	**-**	**-**	**-**	**-**	**(5,692)**
Acquisition of Heritage Savings and Credit Union Inc. (note 25)	**-**	**2,704**	**-**	**-**	**-**	**-**	**-**	**2,704**
Net income	**-**	**-**	**30,243**	**15**	**-**	**-**	**-**	**30,258**
Dividends paid	-	**-**	**(3,996)**	**-**	**-**	**-**	**-**	**(3,996)**
Other comprehensive income (loss)	-	**-**	**-**	**-**	**(2,242)**	**3,493**	**4,566**	**5,817**
Balance, December 31, 2022	**$ 108,780**	**$ 8,178**	**$ 229,819**	**$ (135)**	**$ (3,744)**	**$ 1,903**	**$ 2,493**	**$ 347,294**

(In thousands of dollars)	Investment shares	Contributed surplus	Retained earnings	Non-controlling interest	Accumulated Other Comprehensive Income (Loss) Fair value reserve	Cash flow hedging reserve	Employee benefits	Total
Balance, January 1, 2021	$ 112,293	$ 5,474	$ 148,723	$ (191)	$ -	$ (2,724)	$ (3,524)	$ 260,051
Shares issued	4,375	-	-	-	-	-	-	4,375
Shares redeemed	(6,192)	-	-	-	-	-	-	(6,192)
Net income	-	-	58,415	41	-	-	-	58,456
Dividends paid (net of tax recovery $809)	-	-	(3,566)	-	-	-	-	(3,566)
Other comprehensive income (loss)	-	-	-	-	(1,502)	1,134	1,451	1,083
Balance, December 31, 2021	$ 110,476	$ 5,474	$ 203,572	$ (150)	$ (1,502)	$ (1,590)	$ (2,073)	$ 314,207

See accompanying notes to Consolidated Financial Statements.

FIRSTONTARIO CREDIT UNION LIMITED
Consolidated Statement of Cash Flows

For the year ended December 31, 2022, with comparative information for 2021

(In thousands of dollars)	2022	2021
Operating Activities		
Net income	$ **30,258**	$ 58,456
Adjustments for items not involving cash:		
Amortization of fixed assets	**6,601**	6,546
Amortization of intangible assets	**3,184**	2,884
Net change in fair value of assets recorded as fair value through profit or loss	**(41,526)**	(47,767)
Provision for impaired loans	**1,538**	786
Gain on sale of fixed assets	**(1,352)**	-
Net changes in accrued employee retirement benefits	**(5,434)**	(2,164)
Other non-cash items, net	**9,288**	(5,739)
Net interest income	**(84,966)**	(93,458)
Income tax expense	**10,108**	14,553
Changes in operating assets:		
Net change in loans receivable	**(513,034)**	(328,153)
Net change in derivative assets held for risk management	**(3,424)**	(1,427)
Changes in operating liabilities:		
Net change in deposits	**317,914**	357,595
Net change in derivative liabilities held for risk management	**2,748**	(865)
Net change in accounts payables and accrued liabilities	**(20,836)**	(19,465)
Interest received	**169,890**	157,223
Interest paid	**(70,291)**	(73,198)
Income tax paid	**(11,707)**	(4,546)
Income tax received	**-**	809
Cash flows from (used in) operating activities	**(201,041)**	22,070
Financing Activities		
Net redemptions in membership shares	**(337)**	(1,208)
Net redemptions in investment shares	**(6,688)**	(6,787)
Principal payments on leases	**(2,565)**	(2,502)
Net change in secured borrowings and securitization liabilities	**168,077**	(108,263)
Cash flows from (used in) financing activities	**158,487**	(118,760)
Investing Activities		
Net investment purchases	**5,776**	97,571
Net investment loss (gain)	**1,891**	(1,361)
Proceeds on disposition of investment	**8,180**	14,123
Proceeds on sale of fixed assets	**2,000**	-
Purchase of fixed assets, net of disposals	**(2,078)**	(2,818)
Acquisition of intangible assets	**(2,813)**	(3,079)
Cash flows from investing activities	**12,956**	104,436
Cash and cash equivalents		
Net (decrease) increase during year	**(29,598)**	7,746
Cash on merger with Heritage Savings and Credit Union Inc. (note 25)	**11,092**	-
Balance at beginning of year	**34,638**	26,892
Balance at end of year	$ **16,132**	$ 34,638

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 $2,366,000 (2021 - $2,223,000). At December 31, 2022, there were 126,665 Members (2021 – 121,172).

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 ("IFRIC").

The financial statements were approved by FirstOntario's Board of Directors on March 6, 2023.

Basis of measurement

These financial statements were prepared on a going concern basis under the historical cost method, except for certain financial assets and liabilities, which are measured at fair value as described in Note 20. 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.

Details of FirstOntario's accounting policies, including changes during the year, are included in Note 3.

Use of estimates and judgments

The preparation of Consolidated Financial Statements in conformity with IFRS requires management to exercise judgment and develop 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. Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are applied prospectively once they are known.

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 20 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 ("PD"), exposure at default ("EAD") and loss given default ("LGD"), and incorporates forward-looking information in the measurement of expected credit loss on its loan portfolio. Refer to Note 8 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 22 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 9 for securitizations and Note 19 for hedges.

(e) Fair value of investment properties:

FirstOntario engages independent external valuation experts to estimate the fair value of investment properties. The valuation is based on two approaches: i) income approach; and ii) direct comparison approach. Refer to Note 10 for information relating to these estimates.

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 years presented.

(a) Basis of consolidation:

The Consolidated Financial Statements include the assets, liabilities and results of the operations of FirstOntario, FirstOntario Insurance Holdings Inc. (“FOIH”), FirstOntario Insurance Brokers Inc. (“FOIB”), FirstOntario Credit Union Realty Corporation (“FORC”) and FirstOntario Credit Union GP Corporation (“FOGC”).

In 2021, 1320818 Ontario Limited a wholly owned subsidiary of FirstOntario was dissolved and is no longer a subsidiary of FirstOntario. 1320818 Ontario Limited previously supplied information technology services and operations for the banking system of FirstOntario.

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. Non-controlling interests are initially measured at the proportionate share of the acquirees identifiable net assets at the date of acquisition. Changes in the Credit Union’s interest are accounted for as equity transfers.

FORC is a wholly owned subsidiary of FirstOntario. FORC holds ownership of the Credit Union’s various interests in its real estate portfolio.

FOGC is a wholly owned subsidiary of FirstOntario. FOGC holds ownership of the Credit Union’s various interests in its limited partnerships.

All intercompany transactions and balances have been eliminated.

Investments in which FirstOntario directly or through its subsidiaries exercises joint control are accounted for as a joint venture using the equity method of accounting. FirstOntario’s net investment in the joint venture is recognized as investments in joint ventures on the Consolidated Statement of Financial Position. The carrying value of the joint ventures are subsequently increased (decreased) for FirstOntario’s share of any income (loss) received from the joint ventures. FirstOntario’s share of any income (loss) received from the joint ventures is included in real estate as part of Other Income (Note 23) on the Consolidated Statement of Income. 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. Intra-group balances and transactions arising from intra-group transactions with joint ventures are eliminated.

3. Significant Accounting Policies (continued):

(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 in debt securities, investments in equity securities, loans and advances, Members’ deposits and shares, accounts payable and accrued liabilities, secured borrowings, securitization liabilities, and current taxes payable or receivable.

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

3. Significant Accounting Policies (continued):

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

- 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 related to real estate and other investment income are reported separately in Other Income Note 23 in the Consolidated Statement of Income.

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 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.

3. Significant Accounting Policies (continued):

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

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”).

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 Notes 6 and 10. Classification of all financial instruments is outlined in Note 20.

3. Significant Accounting Policies (continued):

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

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.

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.

3. **Significant Accounting Policies (continued):**

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

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.

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.

3. Significant Accounting Policies (continued):

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

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; or
- 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: credit impairment is recognized in Statement of Income when the assets are determined to be credit impaired and recognized against other comprehensive income. No loss allowance is recognized in Statement of Financial Position as the asset is recorded at FVOCI.

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 8 for further details.

3. Significant Accounting Policies (continued):

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

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 as part of Other Income (Note 23) 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):

Hedge accounting

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 as part of interest expenses from secured borrowings and securitization liabilities 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 and have been derecognized from the Consolidated Statement of Financial Position.

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.

Revenue from servicing loans and mortgages is recorded as the services are provided, in Other Income Note 23 in the Consolidated Statement of Income.

(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.

3. Significant Accounting Policies (continued):

(e) Investments:

Investments include debt securities measured at amortized cost, FVOCI, or designated at FVTPL and equity securities measured at FVTPL or designated as at FVOCI. Managed funds held by FirstOntario are measured at FVTPL and are generally measured based on reporting received from the fund managers. Procedures are performed to validate this reporting, and may be subject to adjustments to ensure the funds are recorded at fair value. Refer to Note 6 for further details.

(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. 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.

(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

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

3. Significant Accounting Policies (continued):

(h) Leases:

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 amortized using the straight-line method from the commencement date to the end of the lease term plus first renewal period. 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.

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 are presented separately on 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.

3. Significant Accounting Policies (continued):

(i) Investment properties:

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

(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 income 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.

3. Significant Accounting Policies (continued):

(m) Revenue recognition (continued):

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 and included as part of Other Income (Note 23) on the Consolidated Statement of Income.

(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.

(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.

3. Significant Accounting Policies (continued):

(p) Employee retirement benefits (continued):

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 employee benefits on the Consolidated Statement of Income.

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 assets and 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 in the Consolidated Statement of Financial Position.

3. Significant Accounting Policies (continued):

(r) Business combinations:

Business combinations are accounted for using the acquisition method of accounting. For every business combination, an acquirer is identified, which is the entity that obtains control of the other entity. In determining whether a particular set of activities and assets is a business, the Credit Union assess whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Credit Union has an option to apply a concentration test that permits a simplified assessment of whether acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is contracted in a single identifiable asset or group of similar identifiable assets.

The effective date of the business combination is the date the acquirer gains control of the acquired entity. The identifiable assets (including previously unrecognized intangible assets) and identifiable liabilities (including contingent liabilities but excluding future restructuring costs) of the acquired entity are measured at fair value. The excess of the consideration transferred over the fair values of the identifiable net assets is recognized as contributed surplus.

Acquisition related costs are expensed as incurred and are included in non-interest expenses.

4. New Standards and Interpretations not yet effective:

Future changes in accounting policy:

a) On May 7, 2021, the IASB issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

The amendments are effective for annual periods beginning on or after January 1, 2023.

The amendments narrow the scope of the initial recognition exemption (IRE) so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

FirstOntario intends to adopt IAS 12 amendments in its financial statements for the annual period beginning on January 1, 2023. FirstOntario currently accounts for temporary differences arising on initial recognition of its leases and as such does not expect any changes on adoption of the standard.

4. New Standards and Interpretations not yet effective (continued):

b) On February 12, 2021, the IASB issued *Definition of Accounting Estimates* (Amendments to IAS 8).

The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

FirstOntario intends to adopt IAS 8 amendments in its financial statements for the annual period beginning on January 1, 2023. Updates are expected in the Credit Union's financial statement note disclosures and accounting policies, however no impacts are expected to recorded accounting estimates.

c) Other standards

The following new and amended standards, effective for annual periods beginning on or after January 1, 2023, are not expected to have a significant impact on FirstOntario:

i. Classification of Liabilities as Current or Non-current (Amendments to IAS 1).

ii. IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.

iii. Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).

iv. Lease Liability in a Sale and Leaseback (Amendments to IFRS 16).

5. Cash and Cash Equivalents:

(In thousands of dollars)		**2022**		2021
Cash on hand	**$**	**13,808**	$	12,871
Cash at Central 1 and other financial institutions		**157**		20,811
Other cash and cash equivalents		**2,167**		956
Total cash and cash equivalents	**$**	**16,132**	$	34,638

6. Investments:

Investments in debt securities

(In thousands of dollars)		2022		2021
Debt securities measured at FVOCI:				
Marketable securities (b)	**$**	**164,686**	$	182,535
Debt securities measured at amortized cost:				
Retained rights – loan securitizations (note 9)		**37,324**		41,528
Debt securities measured at amortized cost:				
Loans (c)		**1,983**		5,425
	$	**203,993**	$	229,488

Investments in equity instruments

In thousands of dollars)		2022		2021
Equity securities measured at FVOCI:				
Shares – Central 1 (d)	**$**	**5,595**	$	5,488
Preferred shares		**2,009**		2,009
Equity securities measured at FVTPL:				
Managed funds (e)		**162,624**		141,621
Investments - other		**10,819**		10,015
Investments measured under IFRS 9		**181,047**		159,133
Other investments		**91**		212
	$	**181,138**	$	159,345

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

(In thousands of dollars)	2022 Carrying Amount	2022 Average Yield	2021 Carrying Amount	2021 Average Yield
Within 1 year	**$ 46,979**	**0.61%**	$ 67,409	0.51%
Over 1 year	**119,649**	**2.57%**	120,517	0.95%
	166,628	**2.02%**	187,926	0.79%
Non-rate sensitive	**218,490**		200,873	
Accrued interest	**13**		34	
	$ 385,131		$ 388,833	

6. Investments (continued):

(a) The following table summarizes other investment income earned on equity securities designated as at FVOCI which is included within Other Income (Note 23) in the Consolidated Statement of Income:

(In thousands of dollars)		**2022**		2021
Other investment income	**$**	**100**	$	553

(b) Marketable securities:

In 2021, FirstOntario began acquiring a portfolio of debt securities with a business model intended to include both collecting contractual cash flows and selling. These liquid assets are held for liquidity risk management purposes. The cash flow characteristics of these debt instruments are SPPI. As such the portfolio is measured at FVOCI.

The debt securities within the portfolio include federal and provincial government bonds, corporate bonds, and mortgage backed securities.

The following table summarizes the investment in marketable securities:

(In thousands of dollars)		**2022**		2021
Bonds	**$**	**120,943**	$	110,135
Mortgage backed securities		**43,743**		72,400
Balance at the end of year	**$**	**164,686**	$	182,535

Income earned on debt securities measured at FVOCI is presented below and is included within Investment Income in the Consolidated Statement of Income:

(In thousands of dollars)		**2022**		2021
Interest and investment income	**$**	**1,177**	$	903

(c) Loans:

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

(In thousands of dollars)		**2022**		2021
Principal loan balance	**$**	**2,059**	$	5,680
Accrued interest		**13**		34
Allowance for expected credit losses		**(89)**		(289)
Balance at the end of year	**$**	**1,983**	$	5,425

6. Investments (continued):

(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 2022, as part of this share rebalancing, During the year, FirstOntario was required to purchase 4,713 (2021 – return 38,992) in Class A shares. In 2021, Central 1 redeemed all of FirstOntario's 14,083,990 Class F Shares. As part of the Heritage Saving and Credit Union Inc. acquisition (Note 25), FirstOntario acquired 14,385 Class A shares and 886 Class E shares. FirstOntario received $nil (2021 - $476,000) in dividends in 2022.

The following table summarizes the investment in Central 1 Shares as at December 31, 2022:

(In thousands of dollars)	**2022**	2021
1,533,441 Class A Shares (2021 – 1,514,343)	**$ 1,533**	$ 1,514
40,622 Class E Shares (2021 - 39,736)	**4,062**	3,974
	$ 5,595	$ 5,488

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

6. Investments (continued):

(e) 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.

The fair value of the managed funds is determined primarily based on the net asset value (“NAV”) reported by the fund managers. Procedures are performed to assess and substantiate reported NAVs provided by the fund managers as fair value.

In determining NAV, FirstOntario relies on fund manager prepared financial statements using accounting standards that differ from IFRS. Procedures are performed to ensure the reported NAV aligns with fair value in accordance with IFRS.

Early liquidation of the funds can result in a net realizable value that differs from the recorded NAV. On this basis, FirstOntario may apply a liquidity discount to managed funds that are expected to be partially or wholly liquidated prior to the initially expected hold period. Consideration of discounts to NAV are incorporated into the assessment of fair value of the financial instrument.

(In thousands of dollars)	**2022**	2021
Fair value at the beginning of year	**$ 141,621**	$ 100,720
Additions to portfolio	**29,199**	29,737
Distributions	**(22,238)**	(16,842)
Change in fair value	**7,076**	28,818
Change from foreign exchange	**6,966**	(812)
Fair value at the end of year	**162,624**	$ 141,621

7. Loans and Advances:

Loans and advances, which are classified as amortized cost, are as follows:

(In thousands of dollars)	2022	2021
Residential mortgage loans	**$ 4,061,771**	$ 3,620,433
Allowance for expected credit losses	**(2,289)**	(631)
	4,059,482	3,619,802
Personal loans	**128,286**	98,443
Allowance for expected credit losses	**(1,783)**	(882)
	126,503	97,561
Commercial loans	**941,778**	865,696
Allowance for expected credit losses	**(7,704)**	(8,953)
	934,074	856,743
Accrued interest receivable	**24,896**	20,036
	$ 5,144,955	$ 4,594,142

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)	2022	2021
Loans held by FirstOntario	**$ 3,593,958**	$ 3,198,696
Loans held by Securitization Trusts	**467,813**	421,737
	$ 4,061,771	$ 3,620,433

Additional details are provided in Note 9 related to FirstOntario's securitization activity.

Interest income for the year is as follows:

(In thousands of dollars)	2022	2021
Residential mortgage loans	**$ 120,794**	$ 113,602
Personal loans	**5,793**	4,976
Commercial loans	**43,621**	37,508
	$ 170,208	$ 156,086

7. Loans and Advances (continued):

As at December 31, total unamortized fees paid to third parties associated with lending activities of $16,339,000 (2021 - $12,937,000) are included in other assets. Amounts amortized into interest expense in respect of these fees were $7,952,000 during the year ended December 31, 2022 (2021 - $6,454,000).

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

		2022		2021
(In thousands of dollars)	**Principal Balance**	**Average Yield**	Principal Balance	Average Yield
Floating	**$ 850,811**	**7.03%**	$ 638,660	3.88%
Within 1 year	**923,269**	**4.46%**	809,681	3.81%
Over 1 year	**3,357,755**	**3.42%**	3,136,231	3.07%
	5,131,835	**4.21%**	4,584,572	3.31%
Allowance for expected credit losses (note 8)	**(11,776)**		(10,466)	
	$5,120,059		$ 4,574,106	

8. Allowance for Expected Credit Losses:

FirstOntario applies the three stage approach to measure the allowance for expected 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 expected 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.

8. Allowance for Expected Credit Losses (continued):

The three stages of the allowance for expected 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 PD, EAD, and 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. For loans past due more than 90 days, default is presumed to have occurred.

8. Allowance for Expected Credit Losses (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)	2022 Total
Balance at beginning of year	$ 4,911	$ 1,317	$ 4,238	$ 10,466
Transfer to (from):				
Stage 1	332	(304)	(28)	-
Stage 2	(149)	157	(8)	-
Stage 3	(15)	(10)	25	-
Re-measurement	1,398	1,331	(136)	2,593
Originations	2,149	-	-	2,149
Loans derecognized	(2,893)	(494)	183	(3,204)
Loans written-off	-	-	(299)	(299)
Recoveries	-	-	71	71
Balance at end of year	$ 5,733	$ 1,997	$ 4,046	$ 11,776

Provision for impaired loans amounting to $1,538,000 (2021 - $786,000) is comprised of ECL related to re-measurement changes of $2,593,000 (2021 - $3,087,000), loan originations of $2,149,000 (2021 - $2,763,000), less loans derecognized of $3,204,000 (2021 - $5,064,000).

(In thousands of dollars)	12-month ECL (Stage 1)	Lifetime ECL- Non-credit Impaired (Stage 2)	Lifetime ECL- Credit Impaired (Stage 3)	2021 Total
Balance at beginning of year	$ 4,045	$ 4,668	$ 1,324	$ 10,037
Transfer to (from):				
Stage 1	1,662	(1,615)	(47)	-
Stage 2	(180)	193	(13)	-
Stage 3	(96)	(4)	100	-
Re-measurement	(1,449)	590	3,946	3,087
Originations	2,763	-	-	2,763
Loans derecognized	(1,834)	(2,515)	(715)	(5,064)
Loans written-off	-	-	(499)	(499)
Recoveries	-	-	142	142
Balance at end of year	$ 4,911	$ 1,317	$ 4,238	$ 10,466

8. Allowance for Expected Credit Losses (continued):

(In thousands of dollars)	Residential Mortgage Loans	Personal Loans	Commercial Loans	2022 Total
Balance at beginning of year	**$ 631**	**$ 882**	**$ 8,953**	**$ 10,466**
Loans written off	**-**	**(299)**	**-**	**(299)**
Recoveries	**-**	**71**	**-**	**71**
Provision for impaired loans	**1,658**	**1,129**	**(1,249)**	**1,538**
Balance at end of year	**$ 2,289**	**$ 1,783**	**$ 7,704**	**$ 11,776**

(In thousands of dollars)	Residential Mortgage Loans	Personal Loans	Commercial Loans	2022 Total
Balance at beginning of year	$ 735	$ 1,209	$ 8,093	$ 10,037
Loans written off	-	(475)	(24)	(499)
Recoveries	-	101	41	142
Provision for impaired loans	(104)	47	843	786
Balance at end of year	$ 631	$ 882	$ 8,953	$ 10,466

A summary of impaired loans is as follows:

(In thousands of dollars)	Residential Mortgage Loans	Personal Loans	Commercial Loans	2022 Total	2021 Total
Gross amount of loans identified as impaired	**$ 14,038**	**$ 495**	**$ 20,289**	**$ 34,822**	$ 31,071
Related security less expected costs	**13,342**	**234**	**17,200**	**30,776**	26,833
ECL	**$ 696**	**$ 261**	**$ 3,089**	**$ 4,046**	$ 4,238

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

(In thousands of dollars)	<30 days	30-59 days	60-89 days	2022 Total	2021 Total
Residential mortgage loans	**$ 61,224**	**$ 4,753**	**$ 1,944**	**$ 67,921**	$ 45,669
Personal loans	**2,134**	**299**	**76**	**2,509**	2,450
Commercial loans	**2,087**	**25**	**-**	**2,112**	3,638
Balance at end of year	**$ 65,445**	**$ 5,077**	**$ 2,020**	**$ 72,542**	$ 51,757

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 22% (2021 - 19%) of the commercial loan portfolio.

8. Allowance for Expected Credit Losses (continued):

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

	2022	2021
Hospitality	**23%**	22%
Retail & Commercial Buildings	**53%**	56%
Other	**24%**	22%

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.

The value of identifiable collateral held against impaired loans amounted to $34,327,000 (2021 - $30,914,000). For each loan, the value of disclosed collateral is capped to the nominal amount of the loan that it is held against. At December 31, 2022, the related security less expected costs of credit impaired loans amounted to $30,766,000 (2021 - $26,833,000).

8. Allowance for Expected Credit Losses (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)	2022	2021
Retail Mortgages and Personal Loans					
Unscored	**$ 19,734**	**$ 281**	**$ 12**	**$ 20,027**	$ 19,672
A+	**1,638,905**	**-**	**66**	**1,638,971**	1,448,558
A	**2,012,363**	**1,762**	**3,927**	**2,018,052**	1,847,790
B	**215,132**	**1,069**	**227**	**216,428**	169,484
C	**167,042**	**15,479**	**699**	**183,220**	141,198
D	**28,201**	**27,700**	**1,806**	**57,707**	51,779
E	**6,685**	**41,147**	**7,820**	**55,652**	40,395
Commercial Loans					
Undoubted	**-**	**-**	**-**	**-**	-
Superior	**165,644**	**-**	**-**	**165,644**	55,110
Satisfactory	**733,794**	**22,051**	**-**	**755,845**	789,375
Watch list	**-**	**-**	**20,289**	**20,289**	21,211
Gross loan balance	**4,987,500**	**109,489**	**34,846**	**5,131,835**	4,584,572
Allowance for impairment loans	**(5,733)**	**(1,997)**	**(4,046)**	**(11,776)**	(10,466)
Carrying amount	**$ 4,981,767**	**$ 107,492**	**$ 30,800**	**$ 5,120,059**	$ 4,574,106

Refer to Note 19 – Financial Risk Management for a detailed explanation of the credit risk rating process of both portfolios.

9. 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.

9. 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, 2022 and December 31, 2021:

	2022		2021	
(In thousands of dollars)	**Residential Mortgages**	**Commercial Mortgages**	Residential Mortgages	Commercial Mortgages
Amount securitized/sold	**$ 146,725**	**$ 232,343**	$ 216,284	$ 344,072
Net cash proceeds received	**141,297**	**226,799**	213,941	337,531
Outstanding balances of securitized loans	**546,613**	**2,783,830**	607,488	2,787,619

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

	2022		2021	
(In thousands of dollars)	**Residential Mortgages**	**Commercial Mortgages**	Residential Mortgages	Commercial Mortgages
Retained rights	**$ 1,239**	**36,085**	$ 1,829	$ 39,699
Outstanding balances of off-balance sheet securitized loans	**78,800**	**2,783,830**	185,751	2,787,619

Retained rights are reported as investments on the Consolidated Statement of Financial Position (Note 6). 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.

	2022	2021
Average life	3.3 years	3.8 years
Prepayment rate	0.00%	0.00%
Discount rate	1.93%	1.83%
Expected credit losses	0.00%	0.00%

10. Investments in Joint Ventures:

FirstOntario periodically enters into agreements with third parties to jointly control and manage investment properties. These investments in joint ventures are initially measured at cost. These investments include joint ventures which hold investment properties held at fair value with any changes therein recognized in the joint ventures' profit or loss. Costs include initial acquisition costs and other costs incurred prior to the real estate being ready for its intended use. FirstOntario is committed to providing additional capital as required to maintain the service level of the joint ventures.

(In thousands of dollars)	2022	2021
Balance at the beginning of year	**$ 109,099**	$ 97,679
Share of total income in joint ventures	**27,855**	18,596
Capital investment contributions	**13,812**	3,452
Distributions	**(1,090)**	(10,628)
Proceeds on disposal	**(8,180)**	-
Loss on disposal	**(426)**	-
Balance at the end of year	**$ 141,070**	$ 109,099

FirstOntario's portion of the revenue and expenses from participation in the ventures has been included as real estate income in Other Income Note 23 as follows:

(In thousands of dollars)	2022	2021
Operating revenues	**$ 9,665**	$ 10,115
Operating expenditures	**6,728**	7,605
Operating net income	**2,937**	2,510
Change in fair value of investment properties	**24,918**	16,086
Share of total income in joint ventures	**$ 27,855**	$ 18,596

Operating revenue of the joint ventures includes interest received by FirstOntario from a promissory note issued to one of its partners in the amount of $184,000 (2021 - $181,000).

During the year ended December 31, 2022, FirstOntario received $1,090,000 (2021 - $10,628,000) in distributions from the ventures. Of the 2022 distributions, $nil (2021 - $8,400,000) related to refinancing of certain joint ventures, whereby FirstOntario received a return of capital and the capital was replaced with debt financing. During 2022, $8,180,000 (2021 - $nil) was received related to the proceeds from the partial sale of certain investments in joint ventures.

The partial sale of the joint ventures resulted in a loss of $426,000 from the last reported fair value of the property.

10. Investments in Joint Ventures (continued):

The estimate of fair value of underlying real estate investment properties was determined by experienced registered independent appraisers having an appropriate recognized professional qualification. The fair value measurement for all the investment properties of the joint ventures has been categorized as a level 3 fair value based on the inputs of the valuation technique used (see Note 20).

Investment property 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.

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

	2022	2021
Capitalization rate	**4.3% - 6.5%**	4.0% - 6.3%
Risk-adjusted discount rate	**7.3%**	7.5% - 8.5%
Occupancy rate	**95% - 98%**	90% - 97%

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

An increase or decrease in the significant unobservable inputs would have the following impact on the estimated fair value of the joint ventures:

	Impact of Increase in Input	**Impact of Decrease in Input**
Capitalization rate	Decrease	Increase
Risk-adjustment discount rate	Decrease	Increase
Occupancy rate	Increase	Decrease
Void periods	Decrease	Increase
Expected market rental growth	Increase	Decrease
Rent-free periods	Decrease	Increase

11. Fixed Assets:

(In thousands of dollars)		Cost		Accumulated amortization		2022 Net book value
Land	$	**883**	$	**-**	$	**883**
Parking lots/Site improvements		**72**		**59**		**13**
Buildings		**25,086**		**10,846**		**14,240**
Equipment		**28,481**		**21,443**		**7,038**
Leasehold improvements		**24,296**		**17,397**		**6,899**
Total fixed assets	**$**	**78,818**	**$**	**49,745**	**$**	**29,073**

(In thousands of dollars)		Cost		Accumulated amortization		2021 Net book value
Land	$	834	$	-	$	834
Parking lots/Site improvements		81		65		16
Buildings		24,917		9,491		15,426
Equipment		27,444		19,334		8,110
Leasehold improvements		24,271		15,695		8,576
Total fixed assets	$	77,547	$	44,585	$	32,962

Amortization in respect of the above assets for the year ended December 31, 2022 amounts to $6,601,000 (2021 - $6,546,000).

11. Fixed Assets (continued):

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

(In thousands of dollars)	2022	2021
Land		
Net book value at the beginning and end of the year	$ 834	$ 1,321
Additions	228	-
Disposals	(179)	(487)
Net book value at the end of the year	883	834
Parking lots/Site improvements		
Net book value at the beginning of the year	16	63
Disposals	-	(35)
Amortization	(3)	(12)
Net book value at the end of the year	13	16
Buildings		
Net book value at the beginning of the year	15,426	17,823
Additions	1,747	268
Disposals	(467)	(163)
Amortization	(2,466)	(2,502)
Net book value at the end of the year	14,240	15,426
Equipment		
Net book value at the beginning of the year	8,110	7,563
Additions	1,244	2,843
Disposals	(4)	(18)
Amortization	(2,312)	(2,278)
Net book value at the end of the year	7,038	8,110
Leasehold improvements		
Net book value at the beginning of the year	8,576	9,702
Additions	148	628
Disposals	(5)	-
Amortization	(1,820)	(1,754)
Net book value at the end of the year	6,899	8,576
Total net book value	$ 29,073	$ 32,962

12. Intangible Assets:

(In thousands of dollars)	Cost	Accumulated amortization	2022 Net book value
Intangible assets (software)	**$ 42,705**	**$ 23,248**	**$ 19,457**
Total intangible assets	**$ 42,705**	**$ 23,248**	**$ 19,457**

(In thousands of dollars)	Cost	Accumulated amortization	2021 Net book value
Intangible assets (software)	$ 39,894	$ 20,066	$ 19,828
Total intangible assets	$ 39,894	$ 20,066	$ 19,828

Amortization in respect of the above assets for the year ended December 31, 2022 amounts to $3,184,000 (2021 - $2,884,000).

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

(In thousands of dollars)	**2022**	2021
Net book value at the beginning of the year	**$ 19,828**	$ 19,633
Additions	**2,819**	3,079
Disposals	**(6)**	-
Amortization	**(3,184)**	(2,884)
Total net book value	**$ 19,457**	$ 19,828

13. Deposits:

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

(In thousands of dollars)	**2022**	2021
Chequing	**$ 614,247**	$ 642,604
Savings	**1,118,005**	1,253,821
Term deposits	**2,205,023**	1,701,385
Registered plans	**773,431**	748,153
	$ 4,710,706	$ 4,345,963

13. Deposits (continued):

Included in registered plans and term deposits are $23,319,000 in Equity-Linked Deposits at December 31, 2022 (2021 - $20,436,000). See Note 18 for the related derivatives used to hedge exposure to equity market risk.

Concentra Trust acts as the trustee for the majority of FirstOntario's tax deferred savings plans (tax-free savings accounts, 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)	**2022**	2021
Savings	**$ 16,695**	$ 6,976
Term deposits	**45,851**	30,279
Registered plans	**13,132**	10,429
	$ 75,678	$ 47,684

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

		2022		2021
(In thousands of dollars)	**Principal Balance**	**Average Yield**	Principal Balance	Average Yield
Floating	**$ 1,159,436**	**2.17%**	$ 1,321,689	0.66%
Within 1 year	**1,606,699**	**2.94%**	1,265,894	1.41%
Over 1 year	**1,179,015**	**3.76%**	963,582	1.71%
	3,945,150	**2.96%**	3,551,165	1.21%
Non-rate sensitive	**765,556**		794,798	
	$ 4,710,706		$ 4,345,963	

14. Secured Borrowings and Securitization Liabilities

The following tables details amounts payable to Central 1 and other funding partners. Security pledged is set out in Note 24(b). All securitized borrowings and securitization liabilities are measured at amortized cost.

Secured Borrowings:

(In thousands of dollars)		**2022**		2021
Central 1 Credit Facilities - Operating loan facilities, bearing a variable interest rate of 5.435% (2021 – nil) due within one year	**$**	**122,000**	$	-
	$	**122,000**	$	-

Securitization Liabilities:

(In thousands of dollars)		**2022**		2021
Mortgage Backed Securities secured by residential mortgage loans, bearing a weighted average fixed interest rate of 2.79% (2021 – 1.56%), expected weighted average maturity date of 2025 (2021 - 2024)	**$**	**438,597**	$	398,701
Mortgage Backed Securities secured by residential mortgage loans, bearing a weighted average variable interest rate of 4.99% (2021 - 0.44%), expected weighted average maturity date of 2026 (2021 - 2021)		**29,216**		23,035
	$	**467,813**	$	421,736

As at December 31, 2022 and December 31, 2021, FirstOntario was in compliance with all financial and non-financial covenants.

Interest expense associated with secured borrowings and securitizations liabilities during the year consisted of the following:

(In thousands of dollars)		**2022**		2021
Secured borrowings	**$**	**4,435**	$	1,131
Securitization liabilities		**10,881**		13,917
	$	**15,316**	$	15,048

15. 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 16) and they rank junior to Class A and Class B special shares for priority in the payment of dividends.

FirstOntario has also authorized 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, Series 2015 and Series 2020 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 and Series 2015 investment shares are redeemable at the sole and absolute discretion of the Board of Directors. Series 2020 investment shares are redeemable at the sole and absolute discretion of the Board of Directors starting in 2025. In any year, redemptions are restricted to 10% of the respective series of the outstanding investment shares.

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, 2015 and 2020 investment shares are classified as equity as these shares are redeemable at the sole and absolute discretion of the Board of Directors.

15. Membership and Investment Shares (continued):

(In thousands of dollars)		2022		2021
Membership shares				
1,767,310 (2021 - 1,705,578) membership shares	$	**8,837**	$	8,528
Investment shares				
4,328,226 (2021 - 4,591,917)				
Class B, Series 1, Special Shares	$	**4,328**	$	4,592
5,782,277 (2021 - 6,000,781)				
Class B, Series 2, Special Shares		**5,782**		6,001
811,807 (2021 - 895,489)				
Class B, Series 2013, Special Shares		**812**		895
Investment shares classified as liabilities		**10,922**		11,488
45,880,622 (2021 - 46,411,033)				
Class B, Series 2010, Special Shares		**45,634**		46,165
62,237,974 (2021 - 63,428,232)				
Class B, Series 2015, Special Shares		**61,985**		63,175
1,160,961 (2021 – 1,136,211)				
Class B, Series 2020, Special Shares		**1,161**		1,136
Investment shares classified as equity		**108,780**		110,476
Total investment shares	$	**119,702**	$	121,964

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)		2022		2021
Membership shares	$	**636**	$	605
Series 1, 2 and 2013 investment shares		**430**		351
Dividends on membership and investment shares	$	**1,066**	$	956
Dividends on Series 2010, 2015 and 2020 shares (classified as equity)	$	**3,996**	$	4,375

15. Membership and Investment Shares (continued):

On March 3, 2022, the Board of Directors approved the issue of 413,146 Series 1, 2 and 2013 investment shares, 1,670,703 Series 2010 investment shares, 2,284,061 Series 2015 investment shares and 40,783 Series 2020 investment shares in payment of a dividend for the 12 months from January 1, 2021 to December 31, 2021.

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

	2022	2021
Membership Shares		
Opening balance	**1,705,578**	1,826,197
Shares issued during the year	**148,397**	154,422
Merger with Heritage Savings and Credit Union Inc. (note 25)	**2,075**	-
Actual shares redeemed	**(88,740)**	(201,802)
Reduction due to inactive member shares	**-**	(73,239)
Membership shares	**1,767,310**	1,705,578
Class B, Series 1, Special Shares		
Opening balance	**4,591,917**	4,830,138
Shares issued during the year	**164,901**	190,008
Shares redeemed	**(428,592)**	(428,229)
Class B, Series 1, Special Shares	**4,328,226**	4,591,917
Class B, Series 2, Special Shares		
Opening balance	**6,000,781**	6,012,678
Shares issued during the year	**216,011**	233,417
Shares redeemed	**(434,515)**	(245,314)
Class B, Series 2, Special Shares	**5,782,277**	6,000,781
Class B, Series 2013, Special Shares		
Opening balance	**895,489**	889,129
Shares issued during the year	**32,234**	34,767
Shares redeemed	**(115,916)**	(28,407)
Class B, Series 2013, Special Shares	**811,807**	895,489
Class B, Series 2010, Special Shares		
Opening balance	**46,411,033**	47,420,832
Shares issued during the year	**1,670,703**	1,867,167
Shares redeemed	**(2,201,114)**	(2,876,966)
Class B, Series 2010, Special Shares	**45,880,622**	46,411,033
Class B, Series 2015, Special Shares		
Opening balance	**63,428,232**	64,242,888
Shares issued during the year	**2,284,061**	2,501,370
Shares redeemed	**(3,474,319)**	(3,316,026)
Class B, Series 2015, Special Shares	**62,237,974**	63,428,232

15. Membership and Investment Shares (continued):

	2022	2021
Class B, Series 2020, Special Shares		
Opening balance	**1,136,211**	1,129,399
Shares issued during the year	**40,783**	6,812
Shares redeemed	**(16,033)**	-
Class B, Series 2020, Special Shares	**1,160,961**	1,136,211

16. 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.

16. Regulatory Reporting and Disclosure (continued):

(a) Capital management (continued):

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. In 2022, FSRA implemented Rule 2021-02 which various regulatory capital ratios, impacting the calculations, inclusion of new metrics and revisions to regulatory minimums. Comparative ratios for 2021 were calculated in accordance with the 2021 requirements.

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

(In thousands of dollars)	**2022**	2021
Tier 1 Capital		
Retained earnings	**$ 229,819**	$ 203,572
Contributed surplus	**8,178**	5,474
Non-controlling interest	**(135)**	-
Membership shares	**8,837**	8,528
Class B Investment Shares, Series 1 (90%)	**3,895**	4,133
Class B Investment Shares, Series 2 (90%)	**5,204**	5,401
Class B Investment Shares, Series 2010 (90%)	**41,071**	41,548
Class B Investment Shares, Series 2013 (90%)	**731**	805
Class B Investment Shares, Series 2015 (90%)	**55,787**	56,857
Class B Investment Shares, Series 2020	**1,161**	1,136
Accumulated other comprehensive income	**652**	-
Intangibles – software	**(15,905)**	-
Total Tier 1 Capital	**339,295**	327,454
Tier 2 Capital		
Class B Investment Shares, Series 1 (10%)	**433**	459
Class B Investment Shares, Series 2 (10%)	**578**	600
Class B Investment Shares, Series 2010 (10%)	**4,563**	4,617
Class B Investment Shares, Series 2013 (10%)	**81**	90
Class B Investment Shares, Series 2015 (10%)	**6,198**	6,318
Accumulated other comprehensive losses – employee benefit adjustments	**-**	(2,073)
Stage 1 and 2 ECL	**7,730**	6,228
Total Tier 2 Capital	**19,583**	16,239
Total Regulatory Capital	**$ 358,878**	$ 343,693
Total Net Assets (2021 – Total Assets)	**$ 5,872,533**	$ 5,199,281
Total Risk Weighted Assets	**$ 2,980,790**	$ 2,536,336

16. Regulatory Reporting and Disclosure (continued):

(a) Capital management (continued):

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	Total Capital Ratio (2021 - Risk-Weighted Capital Ratio) Minimum	Total Capital Ratio (2021 - Risk-Weighted Capital Ratio) Actual
2022	**$ 358,878,000**	**3.00%**	**6.11%**	**8.00%**	**12.04%**
2021	$ 343,693,000	4.00%	6.61%	8.00%	13.55%

(b) Remuneration of officers and employees:

The Act requires disclosure of the five highest paid officers and employees of FirstOntario where total remuneration exceeds $175,000 during the year. The individuals and their respective remuneration (salary, bonuses and benefits including any applicable retirement and post-employment benefits) included Lloyd Smith, Chief Executive Officer ($638,000; $150,000; $36,000); Kevin Tom, Chief Investment Officer ($415,000; $35,000; $37,000); Barry Doan, Chief Risk Officer ($435,000; $5,000; $42,000); David Schurman, Chief Strategy Officer ($436,000; $5,000; $36,000) and Jennifer Finlay, President and Chief Administrative Officer ($435,000; $5,000; $36,000).

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.

16. Regulatory Reporting and Disclosure (continued):

(c) Related party transactions:

FirstOntario's related parties include:

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

(ii) FirstOntario's subsidiaries FOIH, FOIB, FORC and FOGC.

FirstOntario Insurance Holdings Inc. is a wholly owned subsidiary of FirstOntario. FOIH is a holding company which manages FirstOntario's holdings in FirstOntario Insurance Brokers 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, net income of $15,000 (2021 - net income of $41,000) was allocated to non-controlling interests, resulting in accumulated non-controlling interests of $135,000 (2021 -$150,000) at December 31, 2022.

FORC is a wholly owned subsidiary of FirstOntario. FORC commenced operations in 2022 and holds ownership of the Credit Union's various interests in its real estate portfolio which includes various joint ventures as noted in Note 10.

FOGC is a wholly owned subsidiary of FirstOntario. FOGC holds ownership of the Credit Union's various interests in its limited partnerships which includes various joint ventures as noted in Note 10.

All intercompany transactions and balances have been eliminated.

16. Regulatory Reporting and Disclosure (continued):

(c) Related party transactions (continued):

(iii) Defined benefit plans that are referred to in Note 22. 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.

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

(In thousands of dollars)		**2022**		2021
Salaries, bonuses, and other short-term employee benefits	**$**	**3,128**	$	2,745
Post-employment benefits		**147**		138
Directors' remuneration		**414**		386
Total compensation	**$**	**3,689**	$	3,269

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

(In thousands of dollars)		**2022**		2021
Loans				
Residential mortgages	**$**	**3,054**	$	1,811
Personal loans		**94**		56
Accrued interest		**3**		-
Deposits and Shares				
Deposits		**2,731**		1,976
Membership shares		**3**		3
Investment shares		**147**		159
Accrued interest		**30**		3

Total interest revenue derived from lending activity relating to key management personnel was $50,000 during the year ended December 31, 2022 (2021 - $39,000). Total interest expense from deposit-taking activity from related parties was $106,000 during the year ended December 31, 2022 (2021 - $20,000). During 2022 and 2021, no loans held by related parties were impaired.

17. Leases:

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

When measuring lease liabilities for new leases, FirstOntario discounted lease payments using its average incremental borrowing rate at the start of the lease term. 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. For new leases entered into in 2022, FirstOntario applied an incremental borrowing rate of 4.30% (2021 – 2.98%).

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 11).

(In thousands of dollars)		**2022**		2021
Opening balance	**$**	**13,988**	$	16,453
Additions		**785**		271
Disposals		**(303)**		(53)
Amortization		**(2,616)**		(2,683)
Balance at end of year	**$**	**11,854**	$	13,988

(ii) Lease liabilities:

(In thousands of dollars)		**2022**		2021
Opening balance	**$**	**14,781**	$	17,057
Additions		**853**		226
Interest on lease liabilities		**420**		482
Repayments		**(2,985)**		(2,984)
Balance at end of year	**$**	**13,069**	$	14,781

(iii) Maturity analysis for leased liabilities is detailed below. FirstOntario has included optional lease renewal periods where FirstOntario has assessed the likelihood of renewal as "reasonably certain".

(In thousands of dollars)		**2022**		2021
Within 1 year	**$**	**3,022**	$	2,885
1 to 5 years		**7,868**		8,842
Over 5 years		**3,491**		4,673
Total undiscounted lease liabilities	**$**	**14,381**	$	16,400

17. Leases (continued):

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

(In thousands of dollars)		**2022**		2021
Payments on lease liabilities	**$**	**2,985**	$	2,984
Payments on low-value leases		**442**		362
Non-lease payments		**1,420**		1,369
Total cash outflows	**$**	**4,847**	$	4,715

18. Derivative Financial Instruments:

(a) Asset liability management:

In the ordinary course of business, FirstOntario purchases derivative instruments from multiple counterparties 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.

18. Derivative Financial Instruments (continued):

The following table summarizes the notional amounts, maturities and fair values of FirstOntario's derivative portfolio as at December 31, 2022 and December 31, 2021:

						2022
	Within	**1 to 5**	**Over**		**Fair Value**	
(In thousands of dollars)	**1 year**	**years**	**5 years**	**Total**	**Assets**	**Liabilities**
Interest rate swaps	**$ 45,000**	**$ 183,000**	**$ 48,000**	**$ 276,000**	**$ 6,835**	**$ 259**
Bond forwards	**-**	**-**	**-**	**-**	**-**	**-**
Equity-linked options	**2,533**	**21,001**	**-**	**23,534**	**1,560**	**237**
Foreign exchange forward contracts	**167,250**	**-**	**-**	**167,250**	**566**	**275**
2022 Total	**$ 214,783**	**$ 204,001**	**$ 48,000**	**$ 466,784**	**$ 8,961**	**$ 771**

						2021
	Within	1 to 5	Over		Fair Value	
(In thousands of dollars)	1 year	years	5 years	Total	Assets	Liabilities
Interest rate swaps	$ 5,000	$ 105,000	$ -	$ 110,000	$ 2,216	$ 131
Bond forwards	31,000	-	-	31,000	-	254
Equity-linked options	380	20,128	-	20,508	748	539
Foreign exchange forward contracts	185,585	-	-	185,585	2,247	1,045
2022 Total	$ 221,965	$ 125,128	$ -	$ 347,093	$ 5,211	$ 1,969

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.

19. 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 risk of financial loss to FirstOntario if a borrower, co-borrower, obligor or guarantor fails to meet payment obligations in accordance with agreed terms. FirstOntario's financial assets that are affected by credit risk include loans, receivables, 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, while ensuring processes and models with respect to risk-taking and applied business judgment result in appropriate, timely and effective identification, measurement, monitoring and management of Credit Risk.

Credit risk is managed in accordance with the Credit Risk Management Policy framework for loans receivable and non-members and the Market Risk Management Policy for investments and derivative financial instruments.

19. Financial Risk Management (continued):

(a) Credit Risk (continued):

For loans receivable, 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 Executive 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 and procedures 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 and non-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.

(iii) Exposure at default, which represents the total value of the loan when a borrower defaults.

19. 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 8 for further details. The risk of losses from loans undertaken is reduced by the nature and quality of collateral obtained. Refer to Note 8 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.

19. 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:

						2022
(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 and advances	**$ 1,109,954**	**$ 660,054**	**$ 3,329,133**	**$ 20,918**	**$ 24,896**	**$ 5,144,955**
Cash and cash equivalents	**-**	**-**	**-**	**-**	**16,132**	**16,132**
Investments and investment in joint ventures	**13**	**46,966**	**84,541**	**35,108**	**359,573**	**526,201**
Other	**584**	**1,219**	**7,159**	**-**	**67,213**	**76,175**
	$ 1,110,551	**$ 708,239**	**$ 3,420,833**	**$ 56,026**	**$ 467,814**	**$ 5,763,463**
Liabilities and equity						
Deposits	**$ 1,502,530**	**$ 1,263,605**	**$ 1,179,015**	**$ -**	**$ 765,556**	**$ 4,710,706**
Loans and securitization liabilities	**169,918**	**86,565**	**333,330**	**-**	**-**	**589,813**
Other	**943**	**2,001**	**7,417**	**3,479**	**449,104**	**462,944**
	$ 1,673,391	**$ 1,352,171**	**$ 1,519,762**	**$ 3,479**	**$ 1,214,660**	**$ 5,763,463**
Gap-Financial position	**(562,840)**	**(643,932)**	**1,901,071**	**52,547**	**(746,846)**	**-**
Gap-Derivatives	**(134,000)**	**45,000**	**137,000**	**(48,000)**	**-**	**-**
Interest rate gap 2022	$ **(696,840)**	**$ (598,932)**	**$ 2,038,071**	**$ 4,547**	**$ (746,846)**	**$ -**

19. Financial Risk Management (continued):

(b) Interest Rate Risk (continued):

						2021
(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 and advances	$ 785,897	$ 659,137	$ 3,114,291	$ 14,781	$ 20,036	$ 4,594,142
Cash and cash equivalents	-	-	-	-	34,638	34,638
Investments and Investments in joint ventures	51	67,358	120,517	-	310,006	497,932
Other	2,260	37	2,915	-	67,357	72,569
	$ 788,208	$ 726,532	$ 3,237,723	$ 14,781	$ 432,037	$ 5,199,281
Liabilities and equity						
Deposits	$ 1,628,361	$ 959,322	$ 963,482	$ -	$ 794,798	$ 4,345,963
Loans and securitization liabilities	55,640	47,370	318,726	-	-	421,736
Other	1,839	1,985	8,527	4,400	414,831	431,582
	$ 1,685,840	$ 1,008,677	$ 1,290,735	$ 4,400	$ 1,209,629	$ 5,199,281
Gap-Financial position	(897,632)	(282,145)	1,946,988	10,381	(777,592)	-
Gap-Derivatives	(90,000)	16,000	74,000	-	-	-
Interest rate gap 2021	$ (987,632)	$ (266,145)	$ 2,020,988	$ 10,381	$ (777,592)	$ -

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)	**2022**	2021
EaR - Up 100 bps	**$ 778**	$ (1,211)
EaR - Down 100 bps	**(1,030)**	979
EVEaR - Up 100 bps	**(0.15)%**	(2.35)%
EVEaR - Down 100 bps	**(0.01)%**	2.21%

19. Financial Risk Management (continued):

(b) Interest Rate Risk (continued):

Fair Value Hedges

FirstOntario has designated certain hedging relationships involving interest rate swaps that are used to hedge a portfolio of fixed rate, prepayable mortgages as fair value hedges. Gains (losses) associated with the fair value adjustment of these derivatives are recognized in the Consolidated Statement of Income and are offset by the change in fair value of the hedged mortgages with any remaining difference representing hedge ineffectiveness. During the year, a net gain of $247,000 (2021 - $172,000) arose due to hedge ineffectiveness and was recorded in interest income as part of Loans and Advances on the Consolidated Statement of Income. Fair values of the interest rate swaps involved in these hedges at the end of the year was an asset of $5,878,000 (2021 – $1,830,000) and the fair value increment of the hedged mortgages was a liability of $5,788,000 (2021 – $1,752,000).

Cash Flow Hedges

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 $nil (2021 – $254,000 liability). The amount of the gain (loss) included in accumulated other comprehensive income (loss) that is expected to be reclassified to the Consolidated Statement of Income over the next 12 months is $239,000 (2021 - loss of $823,000).

Furthermore, FirstOntario has designated hedging relationships involved interest rate swaps that hedge variable rate marketable securities, variable rate debt, and variable rate member loans. Realized gains (losses) on these derivatives are deferred and recognized consistent with the recognition of the hedged item. The fair value of interest rate swaps involved in these hedges at the end of the year was an asset of $699,000 (2021 - $nil). The amount of the gain (loss) included in accumulated other comprehensive income (loss) that is expected to be reclassified to the Consolidated Statement of Income over the next 12 months is $nil (2021 - $nil).

(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.

19. Financial Risk Management (continued):

(c) Liquidity Risk (continued):

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 senior management of the Credit Union.

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. The following table summarizes FirstOntario's liquidity ratio as follows:

(In thousands of dollars)	**2022**	2021
Total Liquid Investments		
Cash and cash equivalents	**$ 16,132**	$ 34,638
Marketable securities, including NHA MBS	**516,865**	604,070
	$ 532,997	$ 638,708
Deposits and borrowings		
Deposits	**$ 4,710,706**	$ 4,345,963
12 months of expected Securitization maturities	**431,299**	339,538
	$ 5,142,005	$ 4,685,501
Liquidity ratio	**10.37%**	13.63%

The following tables demonstrate FirstOntario's ability to pay future obligations as financial assets and liabilities mature as at December 31, 2022 and 2021. 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.

19. 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
							2022
Assets							
Loans and advances	**$ 183,290**	**$ 1,838,053**	**$ 2,194,809**	**$ 1,269,108**	**$ 22,728**	**$ -**	**$ 5,507,988**
Cash	**16,132**	**-**	**-**	**-**	**-**	**-**	**16,132**
Investments and Investments in joint ventures	**666**	**51,397**	**59,611**	**34,936**	**35,440**	**359,532**	**541,582**
Derivative financial instruments	**226**	**1,575**	**6,203**	**957**	**-**	**-**	**8,961**
Total cash inflow	**$ 200,314**	**$ 1,891,025**	**$ 2,260,623**	**$ 1,305,001**	**$ 58,168**	**$ 359,532**	**$ 6,074,663**
Liabilities							
Members' deposits and shares	**$ 2,046,520**	**$ 1,567,697**	**$ 999,991**	**$ 263,237**	**$ -**	**$ 19,759**	**$ 4,897,204**
Secured borrowings and securitization liabilities	**128,786**	**109,724**	**183,170**	**188,443**	**-**	**-**	**610,123**
Other liabilities	**22,243**	**2,770**	**4,876**	**2,992**	**3,491**	**169,254**	**205,626**
Derivative financial instruments	**104**	**179**	**230**	**82**	**176**	**-**	**771**
Total cash outflow	**$ 2,197,653**	**$ 1,680,370**	**$ 1,188,267**	**$ 454,754**	**$ 3,667**	**$ 189,013**	**$ 5,713,724**

(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
							2021
Assets							
Loans and advances	$ 150,277	$ 1,644,402	$ 1,879,668	$ 1,158,178	$ 15,917	$ -	$ 4,848,442
Cash	34,638	-	-	-	-	-	34,638
Investments and investments in joint ventures	4,242	77,266	100,722	12,787	-	309,972	504,989
Derivative financial instruments	1,600	696	1,838	1,077	-	-	5,211
Total cash inflow	$ 190,757	$ 1,722,364	$ 1,982,228	$ 1,172,042	$ 15,917	$ 309,972	$ 5,393,280
Liabilities							
Members' deposits and shares	$ 2,229,383	$ 1,184,584	$ 849,106	$ 140,703	$ -	$ 20,016	$ 4,423,792
Secured borrowings and securitization liabilities	13,985	74,665	210,506	137,636	-	-	436,792
Other liabilities	66,308	2,644	5,466	3,375	4,673	110,476	192,942
Derivative financial instruments	688	672	608	1	-	-	1,969
Total cash outflow	$ 2,310,364	$ 1,262,565	$ 1,065,686	$ 281,715	$ 4,673	$ 130,492	$ 5,055,495

19. 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 $500,000 through the use of foreign exchange forward contracts. As at December 31, 2022, 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 fair value investments. However, these investments are limited by policy to ensure diversification and quality of financial assets. FirstOntario may be further exposed to price risk through privately managed investments whereby the recorded fair value may not be equivalent to the liquidation value if the investments are sold on the secondary market. As at December 31, 2022, 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 $18,114,000 (2021 - $15,362,000) or 5.2% (2021 - 4.9%) of total Members' Equity. As at December 31, 2022, had the value of FirstOntario's real estate joint ventures increased or decreased by 10% with all other variables remaining unchanged, the portfolio's asset value would have increased or decreased respectively by $17,027,000 (2021 - $15,121,000) or 4.9% (2021 - 4.8%) of total Members' Equity.

20. 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.

20. Fair Values of Financial Instruments (continued):

(In thousands of dollars)	FVTPL-Mandatorily	FVOCI-Debt Instruments	FVOCI-Equity Instruments	Amortized Cost	Total Carrying Value	2022 Fair Value
Financial Assets						
Cash and cash equivalents	**$ -**	**$ -**	**$ -**	**$ 16,132**	**$ 16,132**	**$ 16,132**
Investments	**173,534**	**164,686**	**7,604**	**39,307**	**385,131**	**385,084**
Loans and advances	**-**	**-**	**-**	**5,144,955**	**5,144,955**	**4,960,100**
Derivatives	**8,961**	**-**	**-**	**-**	**8,961**	**8,961**
Total financial assets	**182,495**	**164,686**	**7,604**	**5,200,394**	**5,555,179**	**5,370,277**
Financial Liabilities						
Members' deposits and shares	**-**	**-**	**-**	**4,765,709**	**4,765,709**	**4,721,520**
Secured borrowings and securitization liabilities	**-**	**-**	**-**	**589,813**	**589,813**	**566,528**
Accounts payable, accrued liabilities and current taxes payable	**-**	**-**	**-**	**21,991**	**21,991**	**21,991**
Lease liabilities	**-**	**-**	**-**	**13,069**	**13,069**	**13,069**
Derivatives	**771**	**-**	**-**	**-**	**771**	**771**
Total financial liabilities	**$ 771**	**$ -**	**$ -**	**$ 5,390,582**	**$ 5,391,353**	**$ 5,323,879**

(In thousands of dollars)	FVTPL-Mandatorily	FVOCI-Debt Instruments	FVOCI-Equity Instruments	Amortized Cost	Total Carrying Value	2021 Fair Value
Financial Assets						
Cash and cash equivalents	$ -	$ -	$ -	$ 34,638	$ 34,638	$ 34,638
Investments	151,636	182,535	7,497	46,953	388,621	388,653
Loans and advances	-	-	-	4,594,142	4,594,142	4,583,407
Derivatives	5,211	-	-	-	5,211	5,211
Total financial assets	$ 156,847	$ 182,535	$ 7,497	$ 4,675,733	$ 5,022,612	$ 5,011,909
Financial Liabilities						
Members' deposits and shares	$ -	$ -	$ -	$ 4,380,520	$ 4,380,520	$ 4,376,320
Secured borrowings and securitization liabilities	-	-	-	421,736	421,736	422,791
Accounts payable, accrued liabilities and current taxes payable	-	-	-	46,866	46,866	46,866
Lease liabilities	-	-	-	14,781	14,781	14,781
Derivatives	1,969	-	-	-	1,969	1,969
Total financial liabilities	$ 1,969	$ -	$ -	$ 4,863,903	$ 4,865,872	$ 4,862,727

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.

20. Fair Values of Financial Instruments (continued):

(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.

(c) The estimated fair values of some 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.

(f) The estimated fair values of investments in publicly listed debt securities are determined using quoted market prices. For those debt securities measured at fair value that are not traded in an active market, fair value estimates are determined using valuation methods which maximize the use of observable market data and include discounted cash flow analysis and other commonly used valuation techniques.

(g) The estimated fair values of managed funds are determined using the Net Asset Value reported by the general partner of the fund. Net Asset Values are primarily determined by the general partners using accepted industry valuation methods such as earnings multiples of comparable publicly traded companies or discounted cash flows.

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.

20. Fair Values of Financial Instruments (continued):

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

(In thousands of dollars)	Level 1	Level 2	Level 3	2022 Total
Assets				
Investments – FVTPL	**$ -**	**$ 17,710**	**$ 155,733**	**$ 173,443**
Investments – FVOCI	**116,323**	**48,363**	**7,604**	**172,290**
Derivative financial instruments	**-**	**8,961**	**-**	**8,961**
Total assets held at fair value	**$ 116,323**	**$ 75,034**	**$ 163,337**	**$ 354,694**
Liabilities				
Derivative financial instruments	**$ -**	**$ 771**	**$ -**	**$ 771**
Total liabilities held at fair value	**$ -**	**$ 771**	**$ -**	**$ 771**

(In thousands of dollars)	Level 1	Level 2	Level 3	2021 Total
Assets				
Investments – FVTPL	$ -	$ 20,288	$ 131,348	$ 151,636
Investments – FVOCI	105,188	77,347	7,497	190,032
Derivative financial instruments	-	5,211	-	5,211
Total assets held at fair value	$ 105,188	$ 102,846	$ 138,845	$ 346,879
Liabilities				
Derivative financial instruments	$ -	$ 1,969	$ -	$ 1,969
Total liabilities held at fair value	$ -	$ 1,969	$ -	$ 1,969

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, 2022 and December 31, 2021. 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)	2022	2021
Assets		
Loans receivable	**$ 4,960,100**	$ 4,583,407
Investments	**1,936**	5,457
Total assets held at fair value	**4,962,036**	$ 4,588,864
Liabilities		
Deposits and shares	**$ 4,721,520**	$ 4,376,320
Secured borrowings and securitization liabilities	**566,528**	422,791
Total liabilities held at fair value	**$ 5,288,048**	$ 4,799,111

21. Income Taxes:

The components of income tax expense are as follows:

(In thousands of dollars)		2022		2021
Current income tax expense	$	**2,138**	$	9,987
Deferred income tax expense		**7,970**		4,566
Total income tax expense	$	**10,108**	$	14,553

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

	2022	2021
Combined federal and provincial income taxes	**26.5%**	26.5%
Small business and credit union deductions	**(8.3)**	(8.3)
Income and expense permanent differences	**(1.3)**	2.0
Non-taxable capital gains on investment income	**(0.8)**	(0.3)
Tax rate change	**10.4**	-
Other	**(1.5)**	0.1
Total income tax expense	**25.0%**	20.0%

During the year, FirstOntario transferred a number of its joint ventures to a wholly owned subsidiary. The subsidiary is not entitled to the small business or credit union deductions, and as a result the effective tax on income derived from the transferred real estate investments is 25.5%. This difference in effective tax rate is included above within tax rate change.

The movements of deferred tax assets and liabilities, and the year end balances are presented below:

Asset (liability) (In thousands of dollars)		January 1, 2022		Charge to Income		Charge to OCI		Charge to Contributed Surplus		December 31, 2022
Fixed assets	$	(3,763)	$	(466)	$	-	$	-	$	(4,229)
Allowance for loan losses		1,264		217		-		-		1,481
Derivatives		-		-		-		-		-
Employee retirement benefits		1,339		25		(1,036)		-		328
Investments		(10,590)		(6,719)		508		-		(16,801)
Cash flow hedges		371		-		(779)		-		(408)
Other		(513)		(1,027)		-		135		(1,405)
Total	$	(11,892)	$	(7,970)	$	(1,307)	$	135	$	(21,034)

21. Income Taxes (continued):

Asset (liability) (In thousands of dollars)	January 1, 2021	Charge to Income	Charge to OCI	Charge to Contributed Surplus	December 31, 2021
Fixed assets	$ (3,647)	$ (116)	$ -	$ -	$ (3,763)
Allowance for loan losses	1,714	(450)	-	-	1,264
Derivatives	568	(568)	-	-	-
Employee retirement benefits	1,739	(71)	(329)	-	1,339
Investments	(7,773)	(3,158)	341	-	(10,590)
Cash flow hedges	629	-	(258)	-	371
Other	(310)	(203)	-	-	(513)
Total	$ (7,080)	$ (4,566)	$ (246)	$ -	$ (11,892)

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

(In thousands of dollars)	**2022**	2021
Net unrealized loss on debt securities	**$ 508**	$ 342
Net realized gain on debt securities	**-**	(1)
Net (gain) loss on cash flow hedges	**(838)**	46
Net loss (gain) on cash flow hedges transferred to earnings	**59**	(304)
Actuarial gain on defined benefit pension plans	**(1,036)**	(329)
Total tax effect of components of other comprehensive income	**$ (1,307)**	$ (246)

22. Pensions and Other Employee Obligations:

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 was determined by independent actuaries as at December 31, 2022 and December 31, 2021.

	Defined Benefit Pensions		Other Defined Benefit Plans	
(In thousands of dollars)	**2022**	2021	**2022**	2021
Accrued benefit obligation				
Balance at the beginning of year	**$ 20,264**	$ 21,421	**$ 5,123**	$ 5,640
Current service cost	**615**	669	**33**	57
Interest cost	**607**	558	**149**	143
Benefits paid	**(1,204)**	(1,215)	**(254)**	(235)
Effect of Plan Amendment	**-**	-	**-**	(192)
Actuarial (gain) loss	**(5,521)**	(1,169)	**(1,269)**	(290)
Balance at end of year	**$ 14,761**	$ 20,264	**$ 3,782**	$ 5,123
Plan assets				
Fair value at beginning of year	**$ 18,077**	$ 17,587	**$ -**	$ -
Expected return on plan assets	**530**	453	-	-
Actuarial gain (loss) on plan assets	**(1,188)**	320	-	-
Employer contributions	**452**	932	**254**	235
Benefits paid	**(1,204)**	(1,215)	**(254)**	(235)
Fair value at end of year	**16,667**	18,077	-	-
Balance at end of year	**$ 1,906**	$ (2,187)	**$ (3,782)**	$ (5,123)

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)	**2022**	2021	**2022**	2021
Cumulative actuarial gain (loss) at beginning of year	**$ (3,246)**	$ (4,735)	**$ 736**	$ 446
Actuarial gain in the year on liability	**5,521**	1,169	**1,269**	290
Actuarial gain (loss) in the year on plan assets	**(1,188)**	320	-	-
Cumulative actuarial gain (loss) at end of year	**$ 1,087**	$ (3,246)	**$ 2,005**	$ 736

The net gain recognized in other comprehensive income of $4,566,000 (2021 - $1,450,000) during the year are net of a tax expense of $1,036,000 (2021 - $329,000) as disclosed in Note 21.

22. Pensions and Other Employee Obligations (continued):

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)	**2022**	2021	**2022**	2021
Current service cost	**$ 615**	$ 669	**$ 33**	$ 57
Interest cost	**607**	558	**149**	143
Expected return on plan assets	**(530)**	(453)	**-**	-
Total included in employee benefits expense	**$ 692**	$ 774	**$ 182**	$ 200

	Defined Contribution Pension	
(In thousands of dollars)	**2022**	2021
Contributions recorded as expenses	**$ 2,162**	$ 2,111

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, 2023, is $638,000.

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

	Defined Benefit Pensions		Other Defined Benefit Plans	
(In thousands of dollars)	**2022**	2021	**2022**	2021
Discount rate	**5.1%**	3.0%	**5.1%**	3.0%
Rate of compensation increase	**2.0%**	2.0%	**-**	-

22. Pensions and other employee obligations (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 2022. 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:

	2022		2021	
(In thousands of dollars)	**Defined benefit**	**Other plans**	Defined benefit	Other plans
Health care				
1% increase	**$ n/a**	**$ 234**	$ n/a	$ 353
1% decrease	**n/a**	**(206)**	n/a	(308)
Discount rate				
1% increase	**$ (2,028)**	**$ (309)**	$ (3,097)	$ (497)
1% decrease	**2,356**	**337**	3,661	551
Salary rate				
1% increase	**$ 115**	**$ n/a**	$ 205	$ n/a
1% decrease	**(112)**	**n/a**	(198)	n/a

23. Other Income

(In thousands of dollars)	**2022**	2021
Real estate	**$ 28,124**	$ 20,233
Other investment income	**7,076**	29,623
Mortgage and loan fees	**5,083**	4,693
Service charges and fees	**3,091**	2,885
Wealth management	**2,468**	2,421
Commissions	**2,390**	2,303
Other operational income	**2,015**	2,849
Securitization	**2,067**	3,967
Total other income	**$ 52,314**	$ 68,974

24. Commitments:

(a) Mortgage commitments and lines of credit:

At December 31, 2022, FirstOntario has issued commitments to provide residential mortgage and commercial loans totaling $255,938,000 (2021 - $198,460,000). FirstOntario has also provided lines of credit to Members totaling $866,470,000 at December 31, 2022 (2021 - $813,958,000), against which Members have drawn $323,284,000 (2021 - $302,987,000).

(b) Credit facilities:

Central 1 has provided an operating loan facility to FirstOntario of $243,010,000 (2021 - $164,700,000). Loans to Members have been pledged as security for this facility and the $122,000,000 (2021- $nil) operating 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 (2021 - $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 14 for the outstanding amounts on these facilities.

(c) Contracts:

Interac ATM and point of sale switching servicing totaling $1,426,000 over the next 4 years at present service levels (2021 - $3,715,000 over the next 5 years).

Banking system support services and software maintenance totaling $5,414,000 over the next 9 years (2021 - $6,057,000 over the next 10 years).

Software licensing and support services totaling $1,528,000 over the next 3 years at present service levels (2021 - $1,692,000 over the next 4 years).

Telephone, network and voice services totaling $2,608,000 over the next 4 years at present service levels (2021 - $3,915,000 over the next 5 years).

Sponsorship agreement totaling $2,829,000 over the next 4 years (2021 - $33,000 over the next year).

24. Commitments (continued):

(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 located in the City of Hamilton. The agreement is effective January 1, 2017 and provides the naming rights for 10 years currently with current estimated annual costs of $283,000; for an aggregate total cost of $2,578,000.

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 $200,000 per year for the first five years for an aggregate total of $1,000,000. The financial obligations for this agreement have been completed.

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. The financial obligations for this agreement have been completed

In fiscal 2014, FirstOntario entered into an agreement with Global Spectrum, L.P. for the naming rights to the FirstOntario Centre in the City of Hamilton. The agreement provides the naming rights for 10 years with current estimated annual costs of $396,000 per year for an aggregate total of $3,634,000.

25. Business Combination:

On September 30, 2022, FirstOntario Credit Union acquired Heritage Savings and Credit Union Inc. ("Heritage") and the results of its operations have been included in the consolidated financial statements since that date. FirstOntario assumed liabilities totalling $47,001,000 in exchange for assets of $49,705,000.

(In thousands of dollars)	Fair Value
Cash and cash equivalents	$ 11,092
Investments	3,221
Loans and accrued interest	34,457
Deferred tax asset	135
Fixed assets	800
Member deposits	(46,829)
Member shares	(10)
Other liabilities	(162)
Fair market value of net assets acquired	$ 2,704

The fair market value of net assets acquired excludes a promissory note payable to the Heritage legal entity totalling $2,569,000. The promissory note settles without payment upon wind-up of the Heritage legal entity or in the event the Heritage legal entity is not wound up, the promissory note is cancelled without payment. The fair market value of net assets acquired was recorded in contributed surplus.

The carrying value of cash and cash equivalents approximate their fair value due to their short term nature.

Investments consist predominantly of Federal government debt securities, and the fair value was determined based on discounted cash flow techniques based on the contractual cash flows of the securities.

The carrying values of loans was approximated using discounted cash flow techniques based on the contractual repayment of the products.

Fixed assets consist of one Heritage branch and parking lot, and has been valued consistent with an opinion of value received from a qualified real estate professional.

Acquired member deposits that are subject to a fixed term and interest rate have been measured at fair value based on discounted cash flow techniques based on contractual cash flows of the securities. The fair market value of deposits with no fixed term or a variable rate has been presumed to be equal to carrying value.

26. Comparative Figures:

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