FirstOntario
CREDIT UNION

2016 FINANCIAL REPORTS OF FIRSTONTARIO CREDIT UNION LIMITED

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REPORT ON MANAGEMENT RESPONSIBILITY

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

To meet its responsibility for the integrity and objectivity of data in the 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 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 financial statements through its regular review of financial results and operations and through its Audit Committee. The Member–appointed auditors have full and free access to, and meet periodically with, the Audit 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 Deposit Insurance Corporation of Ontario conducts periodic examination of the financial conditions and affairs of FirstOntario. The examination includes review of FirstOntario's compliance with the provisions of the Act.

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

Kelly McGiffin	Barry Doan, CPA, CA, MAcc
President and Chief Executive Officer	Executive Vice–President and Chief Financial Officer
February 22, 2017	

LOAN STATISTICS

For the sixteen month period ended December 31, 2016

Total retail loan applications received	23,869	
Total retail loans declined	5,966	
Retail loans granted include:		
Personal loans	4,596 for	$ 64,684,132
Mortgages	4,671 for	$ 1,210,535,070
Lines of Credit	1,084 for	$ 13,208,611
Authorized Overdrafts	364 for	$ 330,800
MeritLines	1,152 for	$ 124,456,393
Commercial loans granted include:		
Demand term loans/commercial mortgages	103 for	$ 222,074,177
Demand operating loans	25 for	$ 23,817,195
Delinquent loans:		
Total loans delinquent, 90 days and over		93 loans
Value of loans delinquent, 90 days and over		$ 4,999,807

REPORT OF THE AUDIT COMMITTEE

FirstOntario Credit Union Limited's Audit Committee is a committee of the Board of Directors pursuant to Section 125 of the Credit Unions and Caisses Populaires Act, 1994 (Ontario) and Section 27 of Ontario Regulation 237/09. The Committee, which consists of five 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 Committee is pleased to report to the Members of FirstOntario that it has fulfilled its annual mandate. During the sixteen month period the Committee held 13 meetings and completed the following significant activities:

- 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.
- 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.
- Served as the Board's liaison with the internal auditor and reviewed the internal audit mandate, work plan and reports.
- 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.
- Reviewed management's identification of the significant risks of the Credit Union 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 Committee that have not been either implemented or are in the process of being implemented. In addition, there are no matters which the Audit 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 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 sixteen months, 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 the Credit Union.

Stu Walker

Chair, Audit Committee

February 22, 2017

KPMG LLP
Commerce Place
21 King Street West, Suite 700
Hamilton Ontario L8P 4W7
Tel (905) 523-8200

INDEPENDENT AUDITORS' REPORT

To the Members of FirstOntario Credit Union Limited

We have audited the accompanying consolidated financial statements of FirstOntario Credit Union Limited, which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated statements of income and other comprehensive income, changes in members' equity and cash flows for the sixteen month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of FirstOntario Credit Union Limited as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the sixteen month period then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
Hamilton, Canada
February 22, 2017

FIRSTONTARIO CREDIT UNION LIMITED
Consolidated Statement of Financial Position

As at December 31, 2016, with comparative information for August 31, 2015

(In thousands of dollars)	**December 31, 2016**	August 31, 2015
Assets		
Loans Receivable from Members		
Residential mortgage loans (note 5)	**$ 2,440,515**	$ 1,841,487
Personal loans (note 5)	**129,956**	128,238
Commercial loans (note 5)	**791,546**	733,050
Accrued interest receivable	**20,441**	15,047
	3,382,458	2,717,822
Other		
Cash and cash equivalents (note 7)	**43,026**	94,794
Investments (note 9)	**355,329**	255,470
Fixed assets (note 10)	**35,715**	23,736
Derivative financial instruments (note 15)	**1,639**	937
Other assets	**4,010**	1,407
	$ 3,822,177	$ 3,094,166
Liabilities		
Members' Deposits and Shares		
Deposits (note 11)	**$ 2,338,075**	$ 1,970,028
Membership shares (note 12)	**8,105**	7,652
Investment shares (note 12)	**12,825**	12,917
Accrued interest on deposits and shares	**12,201**	11,624
	2,371,206	2,002,221
Other		
Loans payable and securitization liabilities (note 14)	**1,198,796**	885,654
Accounts payable and accrued liabilities	**46,647**	22,257
Derivative financial instruments (note 15)	**2,118**	4,443
	3,618,767	2,914,575
Members' Equity		
Investment shares (note 12)	**103,246**	97,332
Contributed surplus	**4,865**	4,865
Retained earnings	**99,232**	82,101
Accumulated other comprehensive loss	**(3,933)**	(4,707)
	203,410	179,591
Commitments (note 21)		
	$ 3,822,177	$ 3,094,166

See accompanying notes to Consolidated Financial Statements.

On behalf of the Board:

Director

Director

FIRSTONTARIO CREDIT UNION LIMITED
Consolidated Statement of Income

For the sixteen month period ended December 31, 2016, with comparative information for the year ended August 31, 2015

(In thousands of dollars)	**December 31, 2016**	August 31, 2015
Interest Income		
Members' loans (note 5)	**$ 143,113**	$ 97,445
Other	**8,007**	4,748
	151,120	102,193
Interest Expense		
Members' deposits (note 11)	**43,266**	31,578
Dividends on membership and investment shares (note 12)	**1,199**	842
Loans payable and securitization liabilities (note 14)	**26,706**	16,666
Other	**498**	1,298
	71,669	50,384
Net Interest Income	**79,451**	51,809
Provision for impaired loans (note 6)	**(1,542)**	(1,464)
Other income (note 19)	**33,731**	15,650
Net Interest and Other Income	**111,640**	65,995
Non-interest Expenses		
Salaries and employee benefits	**46,018**	29,899
Administrative	**18,302**	12,132
Technology	**9,850**	6,495
Occupancy	**8,972**	5,909
Donations and community sponsorship	**1,254**	775
	84,396	55,210
Income before Income Taxes	**27,244**	10,785
Income taxes (note 20)	**5,075**	2,095
Net Income for the period	**$ 22,169**	$ 8,690

See accompanying notes to Consolidated Financial Statements.

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

For the sixteen month period ended December 31, 2016, with comparative information for the year ended August 31, 2015

(In thousands of dollars)	**December 31, 2016**	August 31, 2015
Net income for the period	**$ 22,169**	$ 8,690
Other Comprehensive Income (Loss)		
Items that are or may be reclassified subsequently to net income:		
Net loss on cash flow hedges	**(679)**	(2,569)
Net gain on cash flow hedges transferred to earnings	**2,083**	483
Net change in fair value of available for sale investments	**(54)**	(70)
Related income taxes (note 20)	**(290)**	441
Items that are not recycled or reclassified to net income:		
Actuarial (loss) gain on employee benefits, net of tax	**(286)**	1,025
Total Income and Other Comprehensive Income for the period	**$ 22,943**	$ 8,000

See accompanying notes to Consolidated Financial Statements.

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

For the sixteen month period ended December 31, 2016, with comparative information for the year ended August 31, 2015

(In thousands of dollars)	Investment shares	Contributed surplus	Retained earnings	Accumulated Other Comprehensive Income (Loss): Cash flow hedging reserve	Accumulated Other Comprehensive Income (Loss): Fair value reserve for AFS investments	Employee benefits	Total
Balance, August 31, 2015	**$ 97,332**	**$ 4,865**	**$ 82,101**	**$ (3,319)**	**$ 54**	**$ (1,442)**	**$ 179,591**
Shares issued during the period	**6,250**	**-**	**-**	**-**	**-**	**-**	**6,250**
Shares redeemed during the period	**(336)**	**-**	**-**	**-**	**-**	**-**	**(336)**
Net income for the period	**-**	**-**	**22,169**	**-**	**-**	**-**	**22,169**
Dividends paid (net of tax recovery $1,212)	**-**	**-**	**(5,038)**	**-**	**-**	**-**	**(5,038)**
Other comprehensive income (loss)	**-**	**-**		**1,102**	**(42)**	**(286)**	**774**
Balance, December 31, 2016	**$ 103,246**	**$ 4,865**	**$ 99,232**	**$ (2,217)**	**$ 12**	**$ (1,728)**	**$ 203,410**
Balance, August 31, 2014	$ 38,373	$ 4,865	$ 75,138	$ (1,661)	$ 111	$ (2,467)	$ 114,359
Shares issued during the year	59,968	-	-	-	-	-	59,968
Shares redeemed during the year	(1,009)	-	-	-	-	-	(1,009)
Net income for the year	-	-	8,690	-	-	-	8,690
Dividends paid (net of tax recovery $397)	-	-	(1,727)	-	-	-	(1,727)
Other comprehensive (loss) income	-	-	-	(1,658)	(57)	1,025	(690)
Balance, August 31, 2015	$ 97,332	$ 4,865	$ 82,101	$ (3,319)	$ 54	$ (1,442)	$179,591

See accompanying notes to Consolidated Financial Statements.

FIRSTONTARIO CREDIT UNION LIMITED
Consolidated Statement of Cash Flows

For the sixteen month period ended December 31, 2016, with comparative information for the year ended August 31, 2015

(In thousands of dollars)	**December 31, 2016**	August 31, 2015
Cash Flows from Operating Activities		
Net income for the period	**$ 22,169**	$ 8,690
Adjustments for:		
Amortization of fixed assets	**4,794**	3,020
Net change in fair value of assets recorded as fair value through profit or loss	**(4,467)**	(704)
Gain on sale of joint venture	**(1,964)**	-
Gain on sale of fixed assets	**-**	(382)
Net changes in accrued employee retirement benefits	**253**	(978)
Other non–cash items, net	**7,977**	(2,844)
Net interest income	**(79,451)**	(51,809)
Income tax expense	**5,075**	2,095
Changes in operating assets:		
Net change in loans receivable from Members	**(659,242)**	(426,650)
Net change in derivative assets held for risk management	**(702)**	736
Changes in operating liabilities:		
Net change in deposits	**368,047**	145,302
Net change in derivative liabilities held for risk management	**(2,325)**	1,264
Interest received	**145,726**	100,038
Interest paid	**(69,395)**	(50,461)
Income tax paid	**(974)**	(1,449)
Cash flows used in operating activities	**(264,479)**	(274,132)
Cash Flows from Financing Activities		
Net redemptions in membership shares	**(117)**	(105)
Issuance of Class B, Series 2015, Special Shares	**-**	57,844
Net redemptions in investment shares	**(1,058)**	(1,782)
Net change in loans payable and securitization liabilities	**313,142**	345,422
Cash flows from financing activities	**311,967**	401,379
Cash Flows from Investing Activities		
Net investment purchases	**(98,587)**	(64,440)
Proceeds on sale of fixed assets	**-**	1,995
Proceeds on sale of joint venture	**16,104**	-
Purchase of fixed assets, net of disposals	**(16,773)**	(5,886)
Cash flows used in investing activities	**(99,256)**	(68,331)
Cash and cash equivalents		
Net (decrease) increase during period	**(51,768)**	58,916
Balance at beginning of period	**94,794**	35,878
Balance at end of period	**$ 43,026**	$ 94,794

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 Deposit Insurance Corporation of Ontario ("DICO") under a mandatory program, the expense for which amounted to $1,859,000 in 2016 and $1,541,000 in 2015. At December 31, 2016 there were 114,593 Members (August 31, 2015 – 104,102).

The Members of FirstOntario approved a change in the Credit Union's year-end from the previous August 31 to December 31. The change in year-end was made to align the Credit Union's year-end with other Credit Unions in Ontario. As a result, FirstOntario has a sixteen-month period ended December 31, 2016 for the current reporting period, and regular twelve-month calendar fiscal periods going forward. The comparative information in these financial statements is for a full twelve month year ending August 31, 2015.

2. Basis of Preparation:

Statement of compliance

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

These financial statements were approved by FirstOntario's Board of Directors on February 22, 2017. 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.

Use of estimates and judgments

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

2. Basis of Preparation (continued):

Use of estimates and judgments (continued)

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

(a) Fair value of financial instruments:

Where fair value of financial assets and liabilities cannot be derived from active markets, FirstOntario uses valuation techniques that include inputs derived from either observable market data or utilizing management judgment. Refer to Note 17 for information relating to these estimates.

(b) Allowance for impairment on loans:

FirstOntario reviews its loan portfolio frequently to assess impairment, and uses considerable judgment in determining whether or not a loan is impaired as a result of observable evidence. If a loan is considered to be impaired, the amount of the loss is estimated based on management's best estimates. Refer to Note 6 for information relating to these estimates.

(c) Employee retirement benefits:

FirstOntario estimates the present value of employee retirement benefits, which depends on a number of assumptions including discount rates, expected salary and other cost increases, and mortality rates. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Refer to Note 18 for information relating to these estimates.

(d) Hedging and securitizations:

FirstOntario enters into securitization and hedging transactions which require management's best estimates of key assumptions that market participants would use in determining fair value. For more information relating to these estimates refer to Note 8 for securitizations and Note 16 for hedges.

3. Significant Accounting Policies:

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

(a) Basis of consolidation:

The Consolidated Financial Statements include the assets, liabilities and results of the operations of FirstOntario and its wholly owned subsidiary 1320818 Ontario Limited which supplies information technology services and operates the banking system for FirstOntario. All intercompany transactions and balances have been eliminated.

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

(b) Financial instruments – recognition and measurement:

Financial assets and liabilities, including derivatives, are recognized on the Consolidated Statement of Financial Position of FirstOntario at the time that FirstOntario becomes party to the contractual provisions of the instrument. FirstOntario recognizes financial instruments at the trade date.

All financial assets and liabilities are measured at fair value upon initial recognition. Subsequent measurement is dependent upon the financial instrument's classification.

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

Classification of financial instruments

Financial assets and liabilities designated as fair value through profit and loss ("FVTPL") are financial instruments either classified as held for trading ("HFT") or are managed and evaluated on a fair value basis in accordance with a documented risk management strategy. HFT financial assets and liabilities are acquired or incurred principally for resale, generally within a short period of time.

3. Significant Accounting Policies (continued):

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

Classification of financial instruments (continued)

FVTPL financial assets and liabilities 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 investment income. Unrealized gains and losses from changes in fair value are reported separately in the Consolidated Statement of Income. There are regulatory restrictions imposed by the Deposit Insurance Corporation of Ontario on the use of this designation including that loans receivable from Members are precluded from being designated FVTPL and that the fair value designated financial instruments are managed on a fair value basis.

Held–to–maturity (“HTM”) financial assets are non–derivative financial assets with fixed or determinable payments and fixed maturity, other than Loans and Receivables, that FirstOntario has the positive intention and ability to hold to maturity. These financial assets are subsequently measured at amortized cost using the effective interest method.

Available–for–sale (“AFS”) financial assets are those non–derivative financial assets that are not classified as FVTPL, HTM or Loans and Receivables. AFS instruments are subsequently measured at fair value whereby the unrealized gains and losses are recognized in other comprehensive income and included in accumulated other comprehensive income (“AOCI”), as discussed below, until sale or significant and prolonged impairment when the cumulative gain or loss is transferred to the Consolidated Statement of Income. AFS financial assets whose fair value is not reliably measurable are carried at cost. Realized gains and losses on sale are recorded in other income. Write downs to reflect impairment in value are recorded in unrealized gains (losses).

Loans and Receivables are non–derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as Loans and Receivables are initially accounted for net of transaction costs and are subsequently measured at amortized cost by applying the effective interest method.

Financial liabilities classified as Other Liabilities are subsequently measured at amortized cost. Financial liabilities are initially recognized on the trade date FirstOntario becomes party to the contractual provision of the instrument. FirstOntario derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Classification of investment instruments is outlined in Note 9. Classification of all financial instruments is outlined in Note 17.

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 effective interest rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to its net carrying amount upon initial recognition. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently. 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.

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 AFS and HTM financial assets and loans and receivables 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 IFRSs, or for gains and losses arising from a group of similar transactions.

Identification and measurement of impairment losses

At each reporting date FirstOntario assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or group of financial assets is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

For available–for–sale investments in equity securities, objective evidence includes a significant or prolonged decline in its fair value below its cost.

For loans and receivables and held to maturity assets, impairment is assessed at the individual and collective levels. Objective evidence can include, but is not limited to, reasonable doubt as to the collectability of principal and interest, or when loan payments are 90 days past due. Collective allowances are established on a portfolio basis to absorb probable loan losses for which a loss event has occurred but has not yet been identified by management. The collectively assessed allowance is based on portfolio quality, past experience, current economic conditions and management's judgment.

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, and the combined contract is not designated as FVTPL and recorded at fair value. These embedded derivatives are classified as part of the host instrument and measured at fair value with changes therein recognized on the Consolidated Statement of Income.

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

3. Significant Accounting Policies (continued):

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

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 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 IAS 39 *Financial Instruments: Recognition and Measurement*. When the derecognition criteria are met, the assets are derecognized from the Consolidated Statement of Financial Position.

Securitized residential mortgages that are assessed under IAS 39 generally do not meet derecognition requirements as substantially all of the risks and rewards of the loans are held with FirstOntario. As a result, these loans are reported on the Consolidated Statement of Financial Position. Certain securitized residential mortgages subsequently met the derecognition criteria through the transfer of certain risks and rewards to external parties.

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

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

(d) Cash and cash equivalents:

Cash and cash equivalents includes cash on hand, current accounts, short term deposits with other financial institutions, cheques and other items in transit. Given their short-term nature, the carrying value of cash and cash equivalents equals fair value.

(e) Investments:

Investments are recorded at fair value unless the investment is designated as Loans and Receivables. Any gains and losses on disposal of investments are recorded in the period they occur and are included in other income in the Consolidated Statement of Income.

(f) Intangible assets:

Computer software that is not an integral part of other property is accounted for as intangible assets. Computer software is stated at cost less accumulated amortization and accumulated impairment losses and is presented as part of fixed assets in the Consolidated Statement of Financial Position. Amortization of computer software is calculated by applying the straight–line method at rates based on estimated useful lives between 3 and 7 years. Amortization methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

3. Significant Accounting Policies (continued):

(g) Fixed assets:

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

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

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

(h) Investment properties:

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

(i) 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 other liabilities and carried at amortized cost. Shares that are redeemable at the discretion of FirstOntario's Board of Directors are classified as equity.

(j) Dividends:

Dividends on shares classified as other 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.

3. Significant Accounting Policies (continued):

(k) 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.

(l) Revenue recognition:

Loan interest and revenue is recognized on the effective yield basis.

(m) 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. Foreign currency differences arising on translation of available–for–sale equity investments and cash flow hedges are recognized in other comprehensive income.

(n) 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.

(o) 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.

3. Significant Accounting Policies (continued):

(o) Employee retirement benefits (continued):

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.

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

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Credit Union, 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. The Credit Union determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in salaries and benefits in net income.

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. The Credit Union recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(p) 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 period using tax rates enacted or substantively enacted at the reporting period date, and any adjustment to taxes payable in respect of previous years.

3. Significant Accounting Policies (continued):

(p) Income taxes (continued):

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

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

4. New Standards and Interpretations not yet effective:

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

(a) In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* (IFRS 9 (2014)) which will replace IAS 39 *Financial Instruments: Recognition and Measurement*. The final version of IFRS 9 is effective for annual periods beginning on or after January 1, 2018; early adoption is permitted.

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

The standard introduces additional changes relating to financial liabilities.

It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculation of impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgement to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model.

The Credit Union intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

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

(b) IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") replaces IAS 11, *Construction Contracts,* IAS 18, *Revenue* and related interpretations. The core principal of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The mandatory effective date of IFRS 15 is January 1, 2018 and is required to be applied retrospectively when initially applied. The extent of the impact of adoption of the standard has not yet been determined.

(c) On January 7, 2016 the IASB issued *Disclosure Initiative* (Amendments to IAS 7). The amendments apply prospectively for annual periods beginning on or after January 1, 2017, earlier application is permitted.

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities from financing activities.

The Credit Union intends to adopt the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. The Credit Union does not expect the amendments to have a material impact on the financial statements.

(d) On January 19, 2016 the IASB issued *Recognition of Deferred Tax Assets for Unrealized Losses* (Amendments to IAS 12). The amendments apply retrospectively for annual periods beginning on or after January 1, 2017, earlier application is permitted.

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences.

The Credit Union intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. The Credit Union does not expect the amendments to have a material impact on the financial statements.

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

(e) On January 13, 2016 the IASB issued *IFRS 16 Leases*. The new standard is effective for annual periods beginning on or after January 1, 2019, earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 *Leases*.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Credit Union intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

(f) On September 11, 2014 the IASB issued *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (*Amendments to IFRS 10 and IAS 28*).* The amendments were to be applied prospectively for annual periods beginning on or after January 1, 2016, however, on December 17, 2015 the IASB decided to defer the effective date for these amendments indefinitely, early adoption is still permitted.

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture (JV). Specifically, under the existing consolidation standard the parent recognises the full gain on the loss of control, whereas under the existing guidance on associates and JVs the parent recognises the gain only to the extent of unrelated investors' interests in the associate or JV.

The main consequence of the amendments is that a full gain/loss is recognised when the assets transferred meet the definition of a 'business' under IFRS 3 Business Combinations. A partial gain/loss is recognised when the assets transferred do not meet the definition of a business, even if these assets are housed in a subsidiary.

The Credit Union does not intend to early adopt these amendments in its financial statements for the annual period beginning January 1, 2016, as the effective date for these amendments has been deferred indefinitely.

5. Loans Receivable from Members:

Loans receivable from Members, which have been designated as loans and receivables, are as follows:

(In thousands of dollars)	December 31, 2016	August 31, 2015
Residential mortgage loans	**$ 2,441,206**	$ 1,841,992
Allowance for impaired loans	**(691)**	(505)
	2,440,515	1,841,487
Personal loans	**132,203**	130,707
Allowance for impaired loans	**(2,247)**	(2,469)
	129,956	128,238
Commercial loans	**796,066**	737,240
Allowance for impaired loans	**(4,520)**	(4,190)
	791,546	733,050
	$ 3,362,017	$ 2,702,775

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)	December 31, 2016	August 31, 2015
Loans held by FirstOntario	**$ 1,269,960**	$ 1,103,194
Loans held by Securitization Trusts	**1,171,246**	738,798
	$ 2,441,206	$ 1,841,992

Additional details are provided in Note 8 related to the Credit Union's securitization activity.

Interest income for the period is as follows:

(In thousands of dollars)	December 31, 2016	August 31, 2015
Residential mortgage loans	**$ 82,441**	$ 54,130
Personal loans	**9,329**	7,756
Commercial loans	**51,343**	35,559
	$ 143,113	$ 97,445

5. Loans Receivable from Members (continued):

Total fees paid to third parties associated with lending activities capitalized in other assets were $14,066,000 as at December 31, 2016 (August 31, 2015 – $10,554,000). Charges amortized into interest expense in respect of these fees was $6,303,000 during the period ended December 31, 2016 (August 31, 2015 – $3,264,000).

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

(In thousands of dollars)	**December 31, 2016** Principal Balance	**December 31, 2016** Average Yield	August 31, 2015 Principal Balance	August 31, 2015 Average Yield
Floating	**$ 655,323**	**4.03%**	$ 631,824	3.95%
Within 1 year	**398,502**	**4.31%**	303,068	4.86%
Over 1 year	**2,315,650**	**3.39%**	1,775,047	3.71%
	3,369,475	**3.62%**	2,709,939	3.89%
Provision for loan losses	**(7,458)**		(7,164)	
	$ 3,362,017		$ 2,702,775	

6. Allowance for Impaired Loans:

A summary of the allowance for impaired loans is as follows:

					December 31, 2016	August 31, 2015
(In thousands of dollars)	**Residential Mortgage Loans**	**Personal Loans**	**Commercial Loans**	**Collective Allowance**	**Total**	Total
Balance at beginning of period	**$ 69**	**$ 984**	**$ 660**	**$ 5,451**	**$ 7,164**	$ 6,617
Loans written off	**(91)**	**(1,055)**	**(484)**	**-**	**(1,630)**	(1,216)
Recoveries	**-**	**382**	**-**	**-**	**382**	299
Net provision for impaired loans	**134**	**433**	**411**	**564**	**1,542**	1,464
Balance at end of period	**$ 112**	**$ 744**	**$ 587**	**$ 6,015**	**$ 7,458**	$ 7,164

A summary of impaired loans are as follows:

				December 31, 2016	August 31, 2015
(In thousands of dollars)	**Residential Mortgage Loans**	**Personal Loans**	**Commercial Loans**	**Total**	Total
Gross amount of loans identified as impaired	**$ 27,230**	**$ 1,448**	**$ 787**	**$ 29,465**	$ 27,990
Related security less expected costs	**27,118**	**704**	**200**	**28,022**	26,277
Balance at end of period	**$ 112**	**$ 744**	**$ 587**	**$ 1,443**	$ 1,713

6. Allowance for Impaired Loans (continued):

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

				December 31, 2016	August 31, 2015
(In thousands of dollars)	**< 30 days**	**30–59 days**	**60–89 days**	**Total**	Total
Residential mortgage loans	**$ 51,993**	**$ 6,755**	**$ 2,132**	**$ 60,880**	$ 53,651
Personal loans	**2,486**	**463**	**284**	**3,233**	3,446
Commercial loans	**3,014**	**1,878**	**438**	**5,330**	1,012
Balance at end of period	**$ 57,493**	**$ 9,096**	**$ 2,854**	**$ 69,443**	$ 58,109

The carrying amount of loans that were renegotiated during the period that otherwise would have been listed as past due greater than 90 days were $nil (August 31, 2015 – $nil).

FirstOntario's commercial loan portfolio contains Member concentration risk, whereby a large amount of the loans are connected to certain individuals. Collectively, the largest five commercial Members by loan dollar value are associated with approximately 16% (August 31, 2015 – 17%) of the commercial loan portfolio.

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

	December 31, 2016	August 31, 2015
Hospitality	**24%**	21%
Retail & Commercial Buildings	**53%**	52%
Other	**23%**	27%

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 fair value of collateral held with respect to assets that are either past due greater than 30 days or impaired is $66,262,000 as at December 31, 2016 (August 31, 2015 – $50,180,000).

6. Allowance for Impaired Loans (continued):

The following tables illustrate the credit quality of loans that are neither past due nor impaired:

Credit quality of loans – December 31, 2016

Retail Mortgage and Personal Loans		Commercial Loans	
Rating	**% of Portfolio**	**Rating**	**% of Portfolio**
Unscored	**1%**	Undoubted	**0%**
A+	**2%**	Superior	**2%**
A	**54%**	Satisfactory	**85%**
B	**23%**	Watch List	**13%**
C	**12%**		
D	**5%**		
E	**3%**		

Credit quality of loans – August 31, 2015

Retail Mortgage and Personal Loans		Commercial Loans	
Rating	**% of Portfolio**	**Rating**	**% of Portfolio**
Unscored	1%	Undoubted	0%
A+	2%	Superior	6%
A	54%	Satisfactory	78%
B	23%	Watch List	16%
C	11%		
D	5%		
E	4%		

Refer to Note 16 – Financial Risk Management for a detailed explanation of the credit risk rating process of both portfolios.

7. Cash and Cash Equivalents:

(In thousands of dollars)	**December 31, 2016**	August 31, 2015
Cash on hand	**$ 9,912**	$ 9,869
Cash at Central 1	**32,575**	46,702
Restricted cash	**-**	38,003
Other cash and cash equivalents	**539**	220
Total cash and cash equivalents	**$ 43,026**	$ 94,794

8. Loan Securitizations:

FirstOntario enters into transactions in the normal course of business by which it transfers recognized financial assets directly to third parties or Special Purpose Entities ("SPE's"). FirstOntario securitizes mortgage backed securities through programs sponsored by the Canada Mortgage and Housing Corporation and other third party programs.

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 periods ended December 31, 2016 and August 31, 2015:

	December 31, 2016		August 31, 2015	
(in thousands of dollars)	**Residential Mortgages**	**Commercial Mortgages**	Residential Mortgages	Commercial Mortgages
Amount securitized/sold	**$ 1,129,575**	**$ 744,747**	$ 509,859	$ 371,569
Net cash proceeds received	**1,116,615**	**736,318**	505,381	364,336
Outstanding balances of securitized loans	**1,614,617**	**1,232,277**	822,216	557,896

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

	December 31, 2016		August 31, 2015	
(in thousands of dollars)	**Residential Mortgages**	**Commercial Mortgages**	Residential Mortgages	Commercial Mortgages
Retained rights and receivables	**$ 10,685**	**$ 20,595**	$ 3,533	$ 9,860
Outstanding balances of off–balance sheet securitized loans	**444,736**	**1,232,277**	83,418	557,896

Retained rights are reported as investments on the Consolidated Statement of Financial Position (Note 9). The following table summarizes the weighted average key assumptions at the date of off–balance sheet securitization for retained rights related to all residential and commercial mortgages sold and derecognized under IAS 39.

	December 31, 2016	August 31, 2015
Average life	**6.0 years**	6.7 years
Prepayment rate	**0.04%**	0.00%
Discount rate	**1.94%**	2.05%
Expected credit losses	**0.00%**	0.00%

9. Investments:

Investments are as follows:

(In thousands of dollars)	December 31, 2016	August 31, 2015
Investments held to maturity		
Liquidity reserve deposits – Central 1 (d)	$ 223,648	$ 182,595
Accrued interest	1,575	1,538
Investments available for sale, fair value		
Preferred and common shares and trusts	2,146	530
Total liquid investments	227,369	184,663
Investments held as fair value through profit and loss		
CUCO Cooperative Association (c)	3,024	3,392
Managed funds (b)	20,934	11,357
Investments available for sale		
Cost		
Shares – Central 1 (d)	17,745	14,663
Fair value		
Retained rights – loan securitizations	31,280	13,393
Real estate joint ventures (e)	54,705	27,606
Other investments	272	396
	$ 355,329	$ 255,470

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

	December 31, 2016		August 31, 2015	
(In thousands of dollars)	Carrying Amount	Average Yield	Carrying Amount	Average Yield
Within 1 year	$ 40,598	1.79%	$ 14,772	1.87%
Over 1 year	183,050	1.52%	167,823	1.71%
	223,648	1.57%	182,595	1.72%
Non–rate sensitive	130,106		71,337	
Accrued interest	1,575		1,538	
	$ 355,329		$ 255,470	

9. Investments (continued):

(a) Financial instruments classified as AFS:

The following table presents the income and losses of the financial assets classified as AFS:

(In thousands of dollars)		**December 31, 2016**		August 31, 2015
Interest and investment income	**$**	**36**	$	18
Unrealized pre–tax loss recognized in OCI		**(54)**		(70)

(b) Managed funds:

The Credit Union holds certain investments within actively managed investment funds issued by an external investment provider. Given the investments are actively managed by the investment advisors, the Credit Union has elected to account for these investments as fair value through profit and loss. During the period, $8,500,000 (August 31, 2015 - $11,500,000) was invested into this investment pool and net fair value changes of $1,077,000 (August 31, 2015 - $143,000) was recognized in the Consolidated Statement of Income as other income.

(c) CUCO Cooperative Association:

CUCO Cooperative Association ("CUCO Co–op") is owned collectively by Ontario Credit Unions. CUCO Co-op was formed in 2011, through a restructuring of Credit Union Central of Ontario and ABCP (2008) Limited Partnership. FirstOntario holds 5.8% of the outstanding CUCO Co–op Class B investment shares the current capital structure of the CUCO Co–op.

The fair value of these units is directly related to the ABCP investments held by the CUCO Co–op. As there is no separately quoted market value for the underlying ABCP investments, fair value of the underlying ABCP investments are determined by CUCO Co–op's independent valuator. In determining fair value of these notes, the CUCO Co–op used all available information, including interest rate, maturity dates and credit ratings of the borrowers. Estimated yields that a hypothetical investor would require in order to purchase the ABCP investments were developed and the net present value of the notes were then calculated using this information. The recorded amount is the best estimate by the valuator and could change significantly in the future. During the period ended December 31, 2016 a gain of $92,000 (August 31, 2015 – $264,000) was recorded as a result of changes in fair value of the investment and was included in other income in the Consolidated Statement of Income.

9. 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 2016, FirstOntario was required to purchase 3,081,638 (August 31, 2015 – 1,945,098) Central 1 Class A shares and received $460,000 (August 31, 2015 – $499,000) in dividends. The following table summarizes the investment in Central 1 Shares as at December 31, 2016:

(In thousands of dollars)	**December 31, 2016**	August 31, 2015
12,185,868 Central 1 Class "A" Shares (2015 – 9,104,230)	**$ 12,186**	$ 9,104
5,559,000 Central 1 Class "E" Shares (2015 – 5,559,000)	**5,559**	5,559
	$ 17,745	$ 14,663

As there is no active market for these shares, the fair market value is not reliably determinable as future cash flows cannot be adequately predicted with a standard valuation technique. As a result, these shares are carried at cost. FirstOntario does not intend to dispose of the shares in the near future.

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

9. Investments (continued):

(e) Real estate joint ventures:

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

(In thousands of dollars)	**December 31, 2016**	August 31, 2015
Balance at the beginning of period	**$ 27,606**	$ 13,800
Acquisitions	**38,217**	13,500
Earnings from joint ventures	**472**	83
Distributions	**(694)**	(288)
Change in fair value	**5,208**	511
Dispositions	**(16,104)**	-
Balance at the end of period	**$ 54,705**	$ 27,606

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

(In thousands of dollars)	**December 31, 2016**	August 31, 2015
Revenues	**$ 2,306**	$ 998
Expenses	**1,834**	915
Earnings from joint ventures	**$ 472**	$ 83

The expenses of the joint ventures included amortization in the amount of $367,000 (August 31, 2015 – $310,000). Operating cash flow generated by the ventures was $1,425,000 (August 31, 2015 – $441,000). During the period ended December 31, 2016, FirstOntario received $694,000 (August 31, 2015 – $288,000) in distributions from the ventures.

9. Investments (continued):

(e) Real estate joint ventures (continued):

Investment properties held under the ventures is as follows:

(In thousands of dollars)	**December 31, 2016**	August 31, 2015
Real estate held at fair value for investment purposes	**$ 52,022**	$ 23,858
Construction in progress	**2,683**	7,850
Mortgage payable	**-**	(4,102)
Balance at the end of period	**$ 54,705**	$ 27,606

Fair value was determined by experienced registered independent appraisers having an appropriate recognized professional qualification. The fair value measurement for all of the joint ventures has been categorized as a level 3 fair value based on the inputs of the valuation technique used (see Note 17).

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

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

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

	December 31, 2016	August 31, 2015
Capitalization rate	**5.5% – 6.0%**	6.0%
Risk-adjusted discount rate	**6.25 – 6.5%**	6.5%
Occupancy rate	**95% – 98%**	100%
Vacancy periods (average months after end of each lease)	**4.5 months**	4.5 months

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

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

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

10. Fixed Assets:

(In thousands of dollars)			December 31, 2016
	Cost	**Accumulated amortization**	**Net book value**
Land	**$ 1,321**	**$ -**	**$ 1,321**
Parking lots/Site improvements	**348**	**229**	**119**
Buildings	**6,320**	**3,035**	**3,285**
Equipment	**18,282**	**11,635**	**6,647**
Leasehold improvements	**19,092**	**7,181**	**11,911**
Tangible assets	**45,363**	**22,080**	**23,283**
Intangible assets (software)	**23,371**	**10,939**	**12,432**
Total fixed assets	**$ 68,734**	**$ 33,019**	**$ 35,715**

(In thousands of dollars)			August 31, 2015
	Cost	Accumulated amortization	Net book value
Land	$ 1,321	$ -	$ 1,321
Parking lots/Site improvements	326	260	66
Buildings	7,199	4,018	3,181
Equipment	20,934	16,332	4,602
Leasehold improvements	16,402	5,596	10,806
Tangible assets	46,182	26,206	19,976
Intangible assets (software)	16,249	12,489	3,760
Total fixed assets	$ 62,431	$ 38,695	$ 23,736

Amortization in respect of the above assets for the period ended December 31, 2016 amounts to $4,794,000 (August 31, 2015 – $3,020,000).

Included in intangible assets (software) is $10,612,000 (August 31, 2015 – $2,572,000) in work in progress costs related to a new banking system. No amounts have been amortized related to these costs.

10. Fixed Assets (continued):

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

(In thousands of dollars)	**December 31, 2016**	August 31, 2015
Land		
Net book value at the beginning of the period	**$ 1,321**	$ 1,792
Additions	**-**	-
Disposals	**-**	(471)
Net book value at the end of the period	**1,321**	1,321
Parking lots/Site improvements		
Net book value at the beginning of the period	**66**	166
Additions	**67**	-
Disposals	**-**	(89)
Amortization	**(14)**	(11)
Net book value at the end of the period	**119**	66
Buildings		
Net book value at the beginning of the period	**3,181**	4,433
Additions	**367**	15
Disposals	**-**	(1,053)
Amortization	**(263)**	(214)
Net book value at the end of the period	**3,285**	3,181
Equipment		
Net book value at the beginning of the period	**4,602**	4,562
Additions	**4,210**	1,364
Disposals	**(33)**	-
Amortization	**(2,132)**	(1,324)
Net book value at the end of the period	**6,647**	4,602
Leasehold improvements		
Net book value at the beginning of the period	**10,806**	10,404
Additions	**3,044**	1,503
Disposals	**(98)**	-
Amortization	**(1,841)**	(1,101)
Net book value at the end of the period	**11,911**	10,806
Intangible assets (software)		
Net book value at the beginning of the period	**3,760**	1,126
Additions	**9,217**	3,004
Disposals	**(1)**	-
Amortization	**(544)**	(370)
Net book value at the end of the period	**12,432**	3,760
Total net book value	**$ 35,715**	$ 23,736

11. Members' Deposits:

Members' deposits, which are designated as other liabilities, are as follows:

(In thousands of dollars)	December 31, 2016	August 31, 2015
Chequing	**$ 297,348**	$ 252,556
Savings	**688,081**	581,405
Term deposits	**748,553**	590,399
Registered plans	**604,093**	545,668
	$ 2,338,075	$ 1,970,028

Included in registered plans and term deposits are $5,128,000 in Equity–Linked Deposits at December 31, 2016 (August 31, 2015 – $11,204,000). See Note 15 for the related derivatives used to hedge exposure to equity market risk.

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

Interest expense for the period is as follows:

(In thousands of dollars)	December 31, 2016	August 31, 2015
Savings	**$ 9,830**	$ 5,285
Term deposits	**18,389**	14,488
Registered plans	**15,047**	11,805
	$ 43,266	$ 31,578

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

	December 31, 2016		August 31, 2015	
(In thousands of dollars)	Principal Balance	Average Yield	Principal Balance	Average Yield
Floating	**$ 747,067**	**1.08%**	$ 611,441	1.02%
Within 1 year	**917,193**	**1.94%**	545,362	2.15%
Over 1 year	**289,035**	**2.22%**	474,209	2.25%
	1,953,295	**1.65%**	1,631,012	1.75%
Non–rate sensitive	**384,780**		339,016	
	$2,338,075		$ 1,970,028	

12. Membership and Investment Shares:

Authorized Share Capital

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 the Credit Union is meeting the "capital adequacy" requirements (see Note 13) and they rank junior to Class A and Class B special shares for priority in the payment of dividends.

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

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

Issued and Outstanding

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

During the year ended August 31, 2015, 58,096,508 Series 2015 shares were issued and recorded on the Consolidated Balance Sheet net of issuance costs in the amount of $57,844,000.

12. Membership and Investment Shares (continued):

Issued and Outstanding (continued)

(In thousands of dollars)	December 31, 2016	August 31, 2015
Membership shares:		
1,621,024 (August 31, 2015 – 1,530,320)		
Membership Shares	**$ 8,105**	$ 7,652
Investment shares:		
5,305,273 (August 31, 2015 – 5,352,033)		
Class B, Series 1, Special Shares	**5,305**	5,352
6,593,038 (August 31, 2015 – 6,620,594)		
Class B, Series 2, Special Shares	**6,593**	6,621
926,851 (August 31, 2015 – 944,079)		
Class B, Series 2013, Special Shares	**927**	944
Investment shares classified as liabilities	**12,825**	12,917
43,615,163 (August 31, 2015 – 39,734,805)		
Class B, Series 2010, Special Shares	**43,368**	39,488
60,130,954 (August 31, 2015 – 58,096,508)		
Class B, Series 2015, Special Shares	**59,878**	57,844
Investment shares classified as equity	**103,246**	97,332
	$116,071	$ 110,249

12. Membership and Investment Shares (continued):

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)		**December 31, 2016**		August 31, 2015
Membership shares	**$**	**570**	$	456
Series 1, 2 and 2013 investment shares		**629**		386
Dividends on membership and investment shares	**$**	**1,199**	$	842
Dividends on Series 2010 and 2015 shares (classified as equity)	**$**	**6,250**	$	2,124

On January 27, 2016, the Board of Directors approved the issue of 415,846 Series 1, 2 and 2013 investment shares in payment of a dividend for the year from December 1, 2014 to November 30, 2015.

On November 25, 2015, the Board of Directors approved the issue of 2,190,642 Series 2010 investment shares in payment of a dividend for the year from September 1, 2014 to August 31, 2015.

On November 30, 2016, the Board of Directors approved the issue of 1,703,718 Series 2010 investment shares and 2,356,397 Series 2015 investment shares in payment of a dividend for the year from September 1, 2015 to August 31, 2016.

12. Membership and Investment Shares (continued):

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

	December 31, 2016	August 31, 2015
Membership Shares		
Opening balance	**1,530,320**	1,460,147
Shares issued during the period	**99,415**	91,261
Shares redeemed	**(8,711)**	(21,088)
Membership shares	**1,621,024**	1,530,320
Class B, Series 1, Special Shares		
Opening balance	**5,352,033**	5,568,668
Shares issued during the period	**173,421**	166,853
Shares redeemed	**(220,181)**	(383,488)
Class B, Series 1, Special Shares	**5,305,273**	5,352,033
Class B, Series 2, Special Shares		
Opening balance	**6,620,594**	6,816,789
Shares issued during the period	**212,567**	204,019
Shares redeemed	**(240,123)**	(400,214)
Class B, Series 2, Special Shares	**6,593,038**	6,620,594
Class B, Series 2013, Special Shares		
Opening balance	**944,079**	918,780
Shares issued during the period	**29,858**	27,312
Shares redeemed	**(47,086)**	(2,013)
Class B, Series 2013, Special Shares	**926,851**	944,079
Class B, Series 2010, Special Shares		
Opening balance	**39,734,805**	38,619,517
Shares issued during the period	**3,894,360**	2,124,468
Shares redeemed	**(14,002)**	(1,009,180)
Class B, Series 2010, Special Shares	**43,615,163**	39,734,805
Class B, Series 2015, Special Shares		
Opening balance	**58,096,508**	-
Shares issued during the period	**2,356,397**	58,096,508
Shares redeemed	**(321,951)**	-
Class B, Series 2015, Special Shares	**60,130,954**	58,096,508

13. Regulatory Reporting and Disclosure:

(a) Capital management:

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

FirstOntario's objectives when managing capital are:

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

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

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

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

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

13. Regulatory Reporting and Disclosure (continued):

(a) Capital management (continued):

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

(In thousands of dollars)	**December 31, 2016**	August 31, 2015
Tier 1 Capital		
Retained earnings	**$ 99,232**	$ 82,101
Contributed surplus	**4,865**	4,865
Membership shares	**8,105**	7,652
Class B Investment Shares, Series 1 (90%)	**4,775**	4,817
Class B Investment Shares, Series 2 (90%)	**5,934**	5,959
Class B Investment Shares, Series 2010 (90%)	**39,032**	35,539
Class B Investment Shares, Series 2013 (90%)	**834**	850
Class B Investment Shares, Series 2015 (100%)	**59,878**	57,844
Total Tier 1 Capital	**222,655**	199,627
Tier 2 Capital		
Class B Investment Shares, Series 1 (10%)	**530**	535
Class B Investment Shares, Series 2 (10%)	**659**	662
Class B Investment Shares, Series 2010 (10%)	**4,336**	3,949
Class B Investment Shares, Series 2013 (10%)	**93**	94
Accumulated other comprehensive gains on AFS investments	**12**	54
Accumulated other comprehensive losses – employee benefit adjustments	**(1,728)**	(1,442)
Collective allowance for impaired loans	**6,015**	5,451
Total Tier 2 Capital	**9,917**	9,303
Total Regulatory Capital	**$ 232,572**	$ 208,930

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	Leverage Ratio		Risk–Weighted Capital Ratio	
	Capital	Minimum	Actual	Minimum	Actual
2016	**$232,572,000**	**4.00%**	**6.08%**	**8.00%**	**14.06%**
2015	$208,930,000	4.00%	6.75%	8.00%	14.39%

13. Regulatory Reporting and Disclosure (continued):

(b) Remuneration of officers and employees:

The Act requires disclosure of the five highest paid officers and employees of FirstOntario where total remuneration exceeds $150,000. The names, positions and remuneration paid during the 12 months ended December 31, 2016 of those officers and employees are as follows:

	Salary	Benefits	Total
Kelly McGiffin, President and Chief Executive Officer	$ 570,000	$ 44,000	$ 614,000
Barry Doan, EVP & Chief Financial Officer	275,000	34,000	309,000
David Schurman, EVP, Chief Strategy Officer & Chief Risk Officer	275,000	34,000	309,000
Lloyd Smith, EVP & Chief Investment Officer	275,000	31,000	306,000
James Olson, EVP & Chief Operating Officer	275,000	31,000	306,000

Remuneration is fair and competitive and is targeted to be in the 50th percentile of similar positions in credit unions of equal asset size. FirstOntario actively participates in compensation surveys to ensure alignment with the market and employs third party compensation consultants to provide more independence to the process.

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

(c) Related party transactions:

FirstOntario's related parties include:

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

(ii) FirstOntario's subsidiary (1320828 Ontario Limited) and joint ventures noted in Note 9. As at December 31, 2016, no balances (August 31, 2015 – $nil) existed between FirstOntario and these related parties.

(iii) Defined benefit plans that are referred to in Note 18. 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)	**December 31, 2016**	August 31, 2015
Salaries, bonuses, and other short–term employee benefits	**$ 2,327**	$ 1,621
Post–employment benefits	**356**	140
Directors' remuneration	**325**	282
Total compensation	**$ 3,008**	$ 2,043

13. Regulatory Reporting and Disclosure (continued):

(c) Related party transactions (continued):

Related party balances as at December 31, 2016 and August 31, 2015 are outlined in the following table:

(In thousands of dollars)	**December 31, 2016**	August 31, 2015
Loans		
Residential mortgages	**$ 3,106**	$ 2,918
Personal loans	**125**	374
Accrued interest	**4**	3
Deposits and Shares		
Deposits	**1,784**	1,432
Membership shares	**3**	3
Investment shares	**384**	352
Accrued interest	**96**	100

Total interest revenue derived from lending activity relating to key management personnel was $98,000 during the period ended December 31, 2016 (year-ended August 31, 2015 – $75,000). Total interest expense from deposit–taking activity from related parties was $96,000 during the period ended December 31, 2016 (year-ended August 31, 2015 – $172,000). During 2016 and 2015, no loans held by related parties were impaired.

14. Loans Payable and Securitization Liabilities:

The following table details loans payable to Central 1 and other funding partners. Security pledged is set out in Note 21(c). All loans payable are classified as other liabilities.

(In thousands of dollars)	December 31, 2016	August 31, 2015
Central 1 Credit Facilities		
Term loan facilities, bearing a variable weighted average interest rate of 1.26% (August 31, 2015 – 1.26%) due within one year	**$ 30,000**	$ 38,000
Caisse centrale Desjardins Credit Facilities		
Term loan facilities, bearing a variable weighted average interest rate of 1.48% (August 31, 2015 – 1.24%) due within one year	**10,000**	75,000
Securitization Liabilities		
Canada Mortgage Bond bullet bonds, secured by residential mortgages, bearing a weighted average fixed interest rate of 2.82%, matured in 2016	**-**	94,480
Mortgage Backed Securities secured by residential mortgage loans, bearing a weighted average fixed interest rate of 1.88% (August 31, 2015 – 2.21%), expected weighted average maturity date of 2020 (August 31, 2015 – 2017)	**1,117,523**	669,562
Mortgage Backed Securities secured by residential mortgage loans, bearing a weighted average variable interest rate of 1.56% (August 31, 2015 – 1.21%), expected weighted average maturity date of 2019 (August 31, 2015 – 2016)	**41,273**	8,612
	$ 1,198,796	$ 885,654

As at December 31, 2016, the Credit Union was in compliance with all financial and non-financial covenants.

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

(In thousands of dollars)	December 31, 2016	August 31, 2015
Term loans	**$ 2,309**	$ 1,818
Securitization of residential mortgages	**24,397**	14,848
	$ 26,706	$ 16,666

15. Derivative Financial Instruments:

(a) Asset liability management:

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

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

(b) Product related:

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

(c) Foreign exchange forward contracts:

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

The following table summarizes the notional amounts, maturities and fair values of FirstOntario's derivative portfolio as at December 31, 2016 and August 31, 2015:

(In thousands of dollars)						**As at December 31, 2016**
	Within 1 year	**1 to 5 years**	**Over 5 years**	**Total**	**Fair Value Assets**	**Liabilities**
Pay fixed interest rate swaps	**$ -**	**$ 51,736**	**$ -**	**$ 51,736**	**$ -**	**$ 1,580**
Bond forwards	**85,000**	**-**	**-**	**85,000**	**1,177**	**-**
Equity-linked options	**1,820**	**2,947**	**-**	**4,767**	**426**	**538**
Foreign exchange forward contracts	**11,434**	**-**	**-**	**11,434**	**36**	**-**
2016 Total	**$ 98,254**	**$ 54,683**	**$ -**	**$ 152,937**	**$ 1,639**	**$ 2,118**

15. Derivative Financial Instruments (continued):

(In thousands of dollars)						As at August 31, 2015
	Within 1 year	1 to 5 years	Over 5 years	Total	Fair Value Assets	Fair Value Liabilities
Pay fixed interest rate swaps	$ 8,873	$ 50,000	$ 1,806	$ 60,679	$ -	$ 2,895
Bond forwards	124,500	-	-	124,500	-	1,103
Equity-linked options	5,871	5,471	-	11,342	451	445
Foreign exchange forward contracts	14,734	-	-	14,734	486	-
2015 Total	$ 153,978	$ 55,471	$ 1,806	$ 211,255	$ 937	$ 4,443

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.

16. 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 Committee the responsibility for the development and monitoring of risk management policies. The Audit 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 DICO'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.

16. Financial Risk Management (continued):

(a) Credit Risk:

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

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

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

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

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

(ii) Approval by the Vice President Credit 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 dependent upon credit exposure level and restricted party transactions;

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

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

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

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

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

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

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

16. Financial Risk Management (continued):

(a) Credit Risk (continued):

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.

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 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 are used 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 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 21 for further details. The risk of losses from loans undertaken is reduced by the nature and quality of collateral obtained. Refer to Note 6 for a description of the nature of the security held against loans as at the date of the Consolidated Statement of Financial Position.

(b) Interest Rate Risk:

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

16. Financial Risk Management (continued):

(b) Interest Rate Risk (continued):

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.

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:

(In thousands of dollars)						**As at December 31, 2016**
	Within 3 Months	**3 Months to 1 Year**	**1 to 5 Years**	**Over 5 years**	**Non Interest Sensitive**	**Total**
Assets						
Loans receivable	**$ 834,270**	**$ 212,097**	**$2,304,300**	**$ 11,350**	**$ -**	**$ 3,362,017**
Cash	**-**	**-**	**-**	**-**	**43,026**	**43,026**
Investments	**10,693**	**29,905**	**183,050**	**-**	**131,681**	**355,329**
Other	**1,271**	**105**	**263**	**-**	**60,166**	**61,805**
	$ 846,234	**$ 242,107**	**$2,487,613**	**$ 11,350**	**$ 234,873**	**$ 3,822,177**
Liabilities and equity						
Deposits	**$ 1,377,506**	**$ 286,754**	**$ 289,030**	**$ 5**	**$ 384,780**	**$ 2,338,075**
Loans	**114,341**	**201,309**	**883,146**	**-**	**-**	**1,198,796**
Other	**73**	**316**	**1,729**	**-**	**283,188**	**285,306**
	$ 1,491,920	**$ 488,379**	**$1,173,905**	**$ 5**	**$ 667,968**	**$ 3,822,177**
Gap – Financial position	**(645,686)**	**(246,272)**	**1,313,708**	**11,345**	**(433,095)**	**-**
Gap – Derivatives and net securitization gap	**136,736**	**(25)**	**(51,711)**	**(85,000)**	**-**	**-**
Interest rate gap 2016	**$ (508,950)**	**$ (246,297)**	**$1,261,997**	**$ (73,655)**	**$(433,095)**	**$ -**

16. Financial Risk Management (continued):

(b) Interest Rate Risk (continued):

(In thousands of dollars)						As at August 31, 2015
	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 years	Non Interest Sensitive	Total
Assets						
Loans receivable	$ 781,395	$ 146,333	$1,771,542	$ 3,505	$ -	$ 2,702,775
Cash	-	-	-	-	94,794	94,794
Investments	1,567	13,205	167,823	-	72,875	255,470
Other	560	147	230	-	40,190	41,127
	$ 783,522	$ 159,685	$1,939,595	$ 3,505	$ 207,859	$ 3,094,166
Liabilities and equity						
Deposits	$1,056,546	$ 100,257	$ 495,586	$ -	$ 317,639	$ 1,970,028
Loans	137,586	187,332	560,736	-	-	885,654
Other	1,177	156	2,907	203	234,041	238,484
	$1,195,309	$ 287,745	$1,059,229	$ 203	$ 551,680	$ 3,094,166
Gap – Financial position	(411,787)	(128,060)	880,366	3,302	(343,821)	-
Gap – Derivatives and net securitization gap	176,431	(45)	(49,489)	(126,897)	-	-
Interest rate gap 2015	$ (235,356)	$ (128,105)	$ 830,877	$(123,595)	$(343,821)	$ -

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)	**December 31, 2016**	August 31, 2015
EaR	**$ (641)**	$ (452)
EVEaR	**2.68%**	(0.8%)

<u>Fair Value Hedges</u>

FirstOntario has designated certain hedging relationships involving amortizing interest rate swaps that convert fixed rate commercial loans to floating rates as fair value hedges in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. Losses for the period ended December 31, 2016 relating to fair value hedging relationships from hedging instruments was $23,000 (August 31, 2015 – $235,000) and $5,000 (August 31, 2015 – $246,000) for the hedged items. Fair values of the interest rate swaps involved in these hedges at the end of the period was $nil (August 31, 2015 – a liability of $30,000).

16. Financial Risk Management (continued):

(b) Interest Rate Risk (continued):

Fair Value Hedges (continued)

FirstOntario has also designated hedging relationships involving bond forwards that hedge mortgage assets that are associated with debt issuances relating to securitization activity as fair value hedges. Realized gains (losses) on these derivatives are deferred and amortized in accordance with the effective interest rate method along with the asset originated. During the period, $101,000 of hedge ineffectiveness arose and was recorded in other interest expense in the Consolidated Statement of Income. Fair values of the bond forwards involved in these hedges that were unrealized at the end of the period was an asset of $1,177,000 (August 31, 2015 – $nil). The amount of deferred gain that is expected to be reclassified to the Consolidated Statement of Income over the next 12 months is $486,000 (August 31, 2015 – $nil).

Cash Flow Hedges

FirstOntario had designated certain hedging relationships involving interest rate swaps that convert variable rate deposits to fixed rate deposits as cash flow hedges. During the period ended December 31, 2016 a loss of $864,000 (August 31, 2015 – $349,000) arose due to changes in hedge ineffectiveness and was recorded in other interest expense in the Consolidated Statement of Income. The fair value of interest rate swaps involved in hedging relationships at the end of the period was $nil (August 31, 2015 – $nil). The amount of other comprehensive loss that is expected to be reclassified to the Consolidated Statement of Income over the next 12 months is $646,000 (August 31, 2015 – $646,000).

FirstOntario has also designated hedging relationships involving bond forwards that hedge 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. No ineffectiveness has arisen during the period. Fair values of the bond forwards involved in these hedges that were unrealized at the end of the period was a liability of $nil (August 31, 2015 – $1,103,000). The amount of other comprehensive loss that is expected to be reclassified to the Consolidated Statement of Income over the next 12 months is $470,000 (August 31, 2015 – $608,000).

(c) Liquidity Risk:

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

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

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

16. Financial Risk Management (continued):

(c) Liquidity Risk (continued):

Under the Regulations, FirstOntario must establish and maintain prudent levels of liquidity that are sufficient to meet its cash flow needs, including depositor withdrawals and all other obligations as they come due. FirstOntario targets to maintain operating liquidity within the range of 8% to 16%. The low end of the range has been established in order to maintain a comfortable cushion beyond the minimum policy requirements in order to meet cash needs, even during periods of market volatility. As at December 31, 2016, FirstOntario's liquidity ratio was 11.21% (August 31, 2015 – 11.49%) and assets held for liquidity purposes totalled $266,674,000 (August 31, 2015 – $239,386,000), consisting of $223,648,000 (August 31, 2015 – $182,595,000) liquidity reserve deposits and $43,026,000 (August 31, 2015 – $56,791,000) cash.

The tables below demonstrate FirstOntario's ability to pay future obligations as financial assets and liabilities mature as at December 31, 2016 and August 31, 2015. 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.

(In thousands of dollars)							As at December 31, 2016
	Within 1 month	2 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Not Specified	Total
Assets							
Loans receivable from Members	$ 445,912	$ 767,477	$ 1,146,551	$ 1,286,754	$ 11,350	$ -	$ 3,658,044
Cash	43,026	-	-	-	-	-	43,026
Investments	6,321	39,302	90,261	107,771	-	130,106	373,761
Derivative financial instruments	36	1,367	201	35	-	-	1,639
Total cash inflow	$ 495,295	$ 808,146	$ 1,237,013	$ 1,394,560	$ 11,350	$ 130,106	$ 4,076,470
Liabilities							
Members' deposits and shares	$ 1,220,609	$ 838,101	$ 260,229	$ 36,072	$ 5	$ -	$ 2,355,016
Loans payable	55,828	256,480	539,748	418,455	-	-	1,270,511
Other liabilities	46,647	-	-	-	-	-	46,647
Derivative financial instruments	-	480	1,460	178	-	-	2,118
Total cash outflow	$ 1,323,084	$ 1,095,061	$ 801,437	$ 454,705	$ 5	$ -	$ 3,674,292

16. 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 (As at August 31, 2015)
Assets							
Loans receivable from Members	$ 397,692	$ 602,124	$ 1,040,765	$ 790,239	$ 3,520	$ -	$ 2,834,340
Cash	94,794	-	-	-	-	-	94,794
Investments	1,796	17,583	78,777	95,051	-	71,337	264,544
Derivative financial instruments	529	172	200	36	-	-	937
Total cash inflow	$ 494,811	$ 619,879	$ 1,119,742	$ 885,326	$ 3,520	$ 71,337	$ 3,194,615
Liabilities							
Members' deposits and shares	$ 1,012,972	$ 498,067	$ 369,640	$ 116,965	$ -	$ -	$ 1,997,644
Loans payable	120,928	215,699	366,111	230,884	-	-	933,622
Other liabilities	22,257	-	-	-	-	-	22,257
Derivative financial instruments	1,169	169	1,420	1,478	207	-	4,443
Total cash outflow	$ 1,157,326	$ 713,935	$ 737,171	$ 349,327	$ 207	$ -	$ 2,957,966

(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. 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, 2016, 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 investments. However, these investments are limited by policy to ensure diversification and quality of financial assets. As at December 31, 2016, had the value of FirstOntario's managed funds, preferred, common, income trust and CUCO shares increased or decreased by 10% with all other variables remaining unchanged, the portfolio's asset value would have increased or decreased respectively by $2,610,000 (August 31, 2015 – $1,528,000) or 1.3% (August 31, 2015 – 0.9%) of total Members' Equity.

17. 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, although FirstOntario considers the value of intangibles to be significant.

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.

	December 31, 2016			August 31, 2015		
(In thousands of dollars)	**Carrying Value**	**Fair Value**	**Difference**	Carrying Value	Fair Value	Difference
Loans and Receivables						
Loans receivable	**$3,382,458**	**$3,409,473**	**$ 27,015**	$2,717,822	$2,747,628	$ 29,806
Held to Maturity						
Investments	**225,223**	**226,353**	**1,130**	184,133	187,974	3,841
Fair Value through Profit and Loss						
Cash and cash equivalents	**43,026**	**43,026**	**-**	94,794	94,794	-
Investments	**3,024**	**3,024**	**-**	3,392	3,392	-
Derivative financial instruments	**1,639**	**1,639**	**-**	937	937	-
Managed funds	**20,934**	**20,934**	**-**	11,357	11,357	-
Available for Sale						
Investments	**51,171**	**51,171**	**-**	28,586	28,586	-
Total financial assets	**$3,727,475**	**$3,755,620**	**$ 28,145**	$3,041,021	$3,074,668	$ 33,647
Other Liabilities						
Deposits and shares	**$2,371,206**	**$2,376,098**	**$ (4,892)**	$2,002,221	$2,010,773	$ (8,552)
Loans payable	**1,198,796**	**1,203,366**	**(4,570)**	885,654	892,605	(6,951)
Accounts payable and accrued liabilities	**46,647**	**46,647**	**-**	22,257	22,257	-
Fair Value through Profit and Loss						
Derivative financial instruments	**2,118**	**2,118**	**-**	4,443	4,443	-
Total financial liabilities	**$3,618,767**	**$3,628,229**	**$ (9,462)**	$2,914,575	$2,930,078	$ (15,503)

17. Fair Values of Financial Instruments (continued):

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

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

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

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

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

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

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

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

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

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

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

17. 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)	As at December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Investments – FVTPL securities	**$ 20,934**	**$ 3,024**	**$ -**	**$ 23,958**
Investments – Marketable equity securities	**2,146**	**-**	**-**	**2,146**
Investments – Retained rights – loan securitizations	**-**	**31,280**	**-**	**31,280**
Derivative financial instruments	**-**	**1,639**	**-**	**1,639**
Total assets held at fair value	**$ 23,080**	**$ 35,943**	**$ -**	**$ 59,023**
Liabilities				
Derivative financial instruments	**$ -**	**$ 2,118**	**$ -**	**$ 2,118**
Total liabilities held at fair value	**$ -**	**$ 2,118**	**$ -**	**$ 2,118**

(In thousands of dollars)	As at August 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
Investments – FVTPL securities	$ 11,357	$ 3,392	$ -	$ 14,749
Investments – Marketable equity securities	530	-	-	530
Investments – Retained rights – loan securitizations	-	13,393	-	13,393
Derivative financial instruments	-	937	-	937
Total assets held at fair value	$ 11,887	$ 17,722	$ -	$ 29,609
Liabilities				
Derivative financial instruments	$ -	$ 4,443	$ -	$ 4,443
Total liabilities held at fair value	$ -	$ 4,443	$ -	$ 4,443

17. Fair Values of Financial Instruments (continued):

The following table illustrates FirstOntario's financial instruments which are not carried at fair value on the consolidated balance sheet as at December 31, 2016 with comparative information for August 31, 2015. The table does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. FirstOntario's financial instruments held at amortized cost are all classified as Level 2 as identified below:

(In thousands of dollars)		**December 31, 2016**		August 31, 2015
Assets				
Loans receivable	**$**	**3,409,473**	$	2,747,628
Investments		**226,353**		187,974
Total assets held at fair value	**$**	**3,635,826**	$	2,935,602
Liabilities				
Deposits and shares	**$**	**2,376,098**	$	2,010,773
Loans payable		**1,203,366**		892,605
Total liabilities held at fair value	**$**	**3,579,464**	$	2,903,378

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

18. Employee Retirement Benefits:

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

The fair value of accrued benefit obligations were determined by independent actuaries as at December 31, 2016 and August 31, 2015.

	Defined Benefit Pensions		Other Defined Benefit Plans	
(In thousands of dollars)	**December 31, 2016**	August 31, 2015	**December 31, 2016**	August 31, 2015
Accrued benefit obligation				
Balance at the beginning of period	**$ 15,468**	$ 16,716	**$ 5,255**	$ 5,907
Current service cost	**573**	439	**71**	5
Interest cost	**876**	652	**289**	230
Past service cost	**-**	-	**-**	313
Benefits paid	**(801)**	(1,822)	**(187)**	(152)
Actuarial (gain) loss	**836**	(517)	**(178)**	(1,048)
Balance at end of period	**16,952**	15,468	**5,250**	5,255
Plan assets				
Fair value at beginning of period	**14,181**	15,103	**-**	-
Expected return on plan assets	**798**	581	**-**	-
Actuarial gain (loss) on plan assets	**293**	(274)	**-**	-
Employer contributions	**936**	579	**187**	152
Employee contributions	**-**	14	**-**	-
Benefits paid	**(801)**	(1,822)	**(187)**	(152)
Fair value at end of period	**15,407**	14,181	**-**	-
Funded status - deficit	**$ (1,545)**	$ (1,287)	**$ (5,250)**	$ (5,255)

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

	Defined Benefit Pensions		Other Defined Benefit Plans	
(In thousands of dollars	**December 31, 2016**	August 31, 2015	**December 31, 2016**	August 31, 2015
Prepaid benefit costs recorded in other assets	$ **-**	$ 26	$ **-**	$ -
Accrued benefit liability recorded in other liabilities	**(1,545)**	(1,313)	**(5,250)**	(5,255)
Net amount recognized	$ **(1,545)**	$ (1,287)	$ **(5,250)**	$ (5,255)

18. Employee Retirement Benefits (continued):

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

	Defined Benefit Pensions		Other Defined Benefit Plans	
(In thousands of dollars)	**December 31, 2016**	August 31, 2015	**December 31, 2016**	August 31, 2015
Cumulative actuarial losses at beginning of period	**$ (2,228)**	$ (2,471)	**$ 416**	$ (632)
Actuarial gain (loss) in the period on liability	**(836)**	517	**178**	1,048
Actuarial gain (loss) in the period on plan assets	**293**	(274)	**-**	-
Cumulative actuarial gain (loss)	**$ (2,771)**	$ (2,228)	**$ 594**	$ 416

The net loss recognized in other comprehensive income of $286,000 (August 31, 2015 – $1,025,000 gain) during the period are net of a tax recovery of $79,000 (August 31, 2015 – tax of $266,000) as disclosed in Note 20.

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)	**December 31, 2016**	August 31, 2015	**December 31, 2016**	August 31, 2015
Current service cost	**$ 573**	$ 439	**$ 71**	$ 5
Interest cost	**876**	652	**289**	230
Past service cost	-	-	**-**	313
Expected return on plan assets	**(798)**	(581)	**-**	-
Total included in employee benefits expense	**$ 651**	$ 510	**$ 360**	$ 548

	Defined Contribution Pension	
(In thousands of dollars)	**December 31, 2016**	August 31, 2015
Contributions recorded as expenses	**$ 1,922**	$ 1,104

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, 2017, is $791,000.

18. Employee Retirement Benefits (continued):

The significant actuarial assumptions adopted by the Credit Union are as follows (weighted–average assumptions):

	Defined Benefit Pensions		Other Defined Benefit Plans	
	December 31, 2016	August 31, 2015	**December 31, 2016**	August 31, 2015
Discount rate	**3.9%**	4.2%	**3.9%**	4.2%
Rate of compensation increase	**2.0%**	3.0%	-	-

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, 5.0% and 3.0% rates of increase in the per capita cost of covered health care and dental care benefits respectively were assumed for 2016. The rate of increase for health care benefits was assumed to remain unchanged at 5.0%. The rate of increase for dental care benefits was assumed to remain unchanged at 3.0%.

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:

	December 31, 2016		August 31, 2015	
(In thousands of dollars)	**Defined benefit**	**Other plans**	Defined benefit	Other plans
Health care				
1% increase	**$ na**	**$ 512**	$ na	$ 479
1% decrease	**na**	**(435)**	na	(408)
Discount rate				
1% increase	**$ (2,668)**	**$ (572)**	$ (2,402)	$ (599)
1% decrease	**3,172**	**644**	2,848	677
Salary rate				
1% increase	**$ 147**	**$ na**	$ 210	$ na
1% decrease	**(143)**	**na**	(201)	na

19. Other Income:

The components of other income were as follows:

(In thousands of dollars)	**December 31, 2016**	August 31, 2015
Service charges	**$ 4,490**	$ 3,474
Mortgage and loan fees	**4,315**	2,530
Commissions	**2,813**	2,037
Other operational income	**879**	814
Wealth management	**2,717**	1,592
Securitization	**10,650**	4,013
Real estate	**6,274**	595
Other investment income	**1,593**	595
Total other income	**$ 33,731**	$ 15,650

20. Income Taxes:

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

(In thousands of dollars)	**December 31, 2016**	August 31, 2015
Current income tax expense	**$ 3,617**	$ 1,606
Deferred income tax expense	**1,458**	489
Total income tax expense	**$ 5,075**	$ 2,095

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

	December 31, 2016	August 31, 2015
Combined federal and provincial income taxes	**39.5%**	39.5%
Small business and credit union deductions	**(20.1)**	(20.9)
Income and expense permanent differences	**0.1**	0.2
Tax rate change	**(0.2)**	0.3
Other	**(0.7)**	0.3
Total income tax expense	**18.6%**	19.4%

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

(In thousands of dollars)	**August 31, 2015**	**Charge to Income**	**Charge to OCI**	**December 31, 2016**
Fixed assets	**$ (424)**	**$ (375)**	**$ -**	**$ (799)**
Allowance for loan losses	**1,093**	**153**	**-**	**1,246**
Derivatives	**(96)**	**191**	**-**	**95**
Employee retirement benefits	**1,053**	**330**	**79**	**1,462**
Investments	**(1,478)**	**(1,393)**	**12**	**(2,859)**
Cash flow hedges	**1,138**	**(349)**	**(302)**	**487**
Other	**(23)**	**(15)**	**-**	**(38)**
Total	**$ 1,263**	**$ (1,458)**	**$ (211)**	**$ (406)**

(In thousands of dollars)	August 31, 2014	Charge to Income	Charge to OCI	August 31, 2015
Fixed assets	$ (337)	$ (87)	$ -	$ (424)
Allowance for loan losses	948	145	-	1,093
Derivatives	(225)	129	-	(96)
Employee retirement benefits	1,528	(209)	(266)	1,053
Investments	(761)	(730)	13	(1,478)
Cash flow hedges	444	266	428	1,138
Other	(20)	(3)	-	(23)
Total	$ 1,577	$ (489)	$ 175	$ 1,263

20. Income Taxes (continued):

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

(In thousands of dollars)	December 31, 2016	August 31, 2015
Net gain on cash flow hedges	**$ (394)**	$ 523
Net loss on cash flow hedges transferred to earnings	**92**	(95)
Net change in fair value of available–for–sale investments	**12**	13
Actuarial gain (loss) on defined benefit pension plans	**79**	(266)
Total tax effect of components of other comprehensive income	**$ (211)**	$ 175

21. Commitments:

(a) Leases:

FirstOntario leases space for most of its branches and some computer equipment. The leases have varying terms, escalation clauses and renewal rights. Lease payments made as a result of operating leases during the period were $4,984,000 (August 31, 2015 – $2,899,000). Total future minimum lease payments under non–cancellable operating leases are as follows:

(In thousands of dollars)	December 31, 2016	August 31, 2015
Within 1 year	**$ 3,931**	$ 3,657
1 to 5 years	**11,554**	13,164
Over 5 years	**4,630**	7,237

(b) Mortgage commitments and lines of credit:

At December 31, 2016, FirstOntario has issued commitments to provide residential mortgage and commercial loans totaling $126,657,000 (August 31, 2015 – $99,976,000). FirstOntario has also provided lines of credit to Members totaling $731,880,000 at December 31, 2016 (August 31, 2015 – $665,487,000), against which Members have drawn $336,688,000 (August 31, 2015 – $314,501,000).

(c) Credit facilities:

Central 1 has provided an operating loan facility to FirstOntario of $164,000,000 (August 31, 2015 – $105,000,000). Loans to Members have been pledged as security for these facilities and the term loan by an assignment of book debts and a general security agreement.

Caisse centrale Desjardins has provided an operating facility to FirstOntario in the amount of $100,000,000 (August 31, 2015 - $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.

21. Commitments (continued):

(d) Contracts:

Interac ATM and point of sale switching servicing totaling $2,501,000 over the 3 next years at present service levels (August 31, 2015 – $2,684,000 over the next 4 years).

Banking system support services and software maintenance totaling $5,179,000 over the next 15 years (August 31, 2015 – $6,899,000 over the next 16 years).

Telephone network and voice services totaling $2,568,000 over the next 3 years at present service levels (August 31, 2015 – $2,608,000 over the next 4 years).

(e) Naming rights:

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

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

22. Comparative Figures:

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