# Let's do this.

## Annual Report 2021

wyth™

“Wyth’s purpose is creating the future of banking, to enable your success. We’re an innovative company helping customers to solve their unmet needs, while also being a great corporate citizen with a strong focus on making a positive difference for the environment and communities.”

— President & CEO, Don Coulter

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# Welcome to Wyth

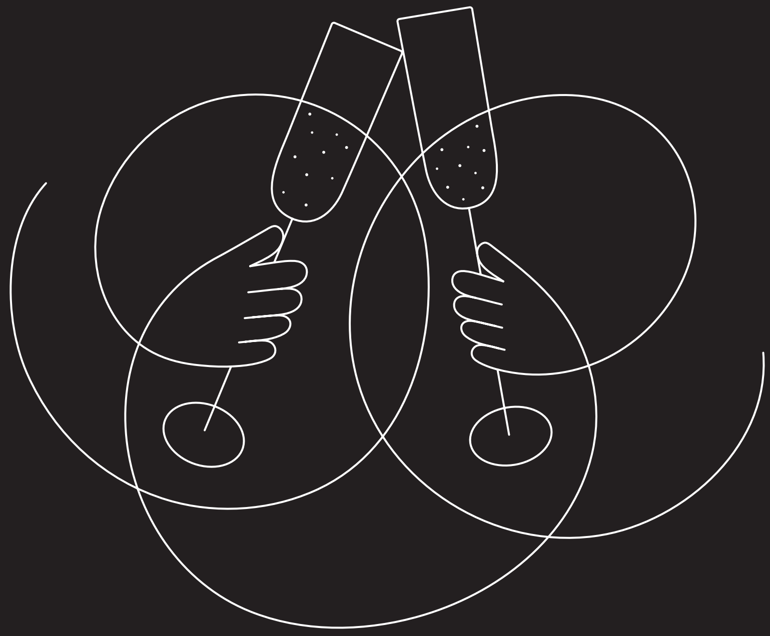
Wyth Financial is the trade name of Concentra Bank, a purpose-driven Schedule I bank that provides specialized banking products and services to Canadian consumers and businesses, credit unions and Fintechs. Headquartered in Saskatchewan, Wyth is a digital bank that helps people save money, buy a property, set up a Trust, manage an estate and grow a business. It offers unique financial products created jointly with innovative partners.

Wyth Trust is the trade name for Concentra Trust, a federally regulated, wholly owned subsidiary of Concentra Bank.

Concentra Bank has an investment-grade external debt rating from DBRS and has been named one of Canada's Best Managed Companies 18 years in a row.

# Message from Lise de Moissac

This has been a successful year for Wyth Financial (the new trade name of Concentra Bank), and I'd like to thank management and employees for taking the bank on a bold and fast-paced journey over the last four years. »



In 2018, margins were under pressure, sources of funding were limited, and the bank's growth prospects were unclear. The Board of Directors hired a new CEO and approved a new strategy to address these shortcomings. Guided by its purpose—*Creating the future of banking to enable your success*—the bank increased its financial performance and valuation by pulling on five levers:

1) new businesses with higher margins and RAROC (risk-adjusted return on capital),
2) scaling the organization,
3) diversifying sources of funding and reducing the cost of funds,
4) improving asset mix, and
5) deepening relationships with credit unions.

In the four years ending 2021, the bank's value has increased materially, based on book value growth and earnings expansion.

As the bank grew nationwide, its majority shareholder SaskCentral decided to divest to reduce its capital concentration risk, free up capital funds, and enable new investment in the credit union sector it supports. In early February 2022, SaskCentral and Equitable Bank announced an agreement for Equitable Bank to acquire Wyth Financial and Wyth Trust, subject to approval by regulators.

The agreement was subject to approval by the Wyth Board of Directors, who engaged in a robust process to assess the transaction in the best interests of the Bank and considered the impact of the transaction on all stakeholders. Until regulatory approval is received and the transaction closes, the Board will continue to oversee Wyth Financial and Wyth Trust in the best interests of shareholders, customers and all stakeholders.

The announcement was the start of a review and planning process that will take some months and until it is complete, Wyth may not have all the answers people seek, but both companies will update their stakeholders and the public as needed. All parties are committed to completing the transaction as quickly as possible.

> *Wyth's management and employees can be very proud that they've been part of reinventing, growing and modernizing a strong company and differentiated brand.*

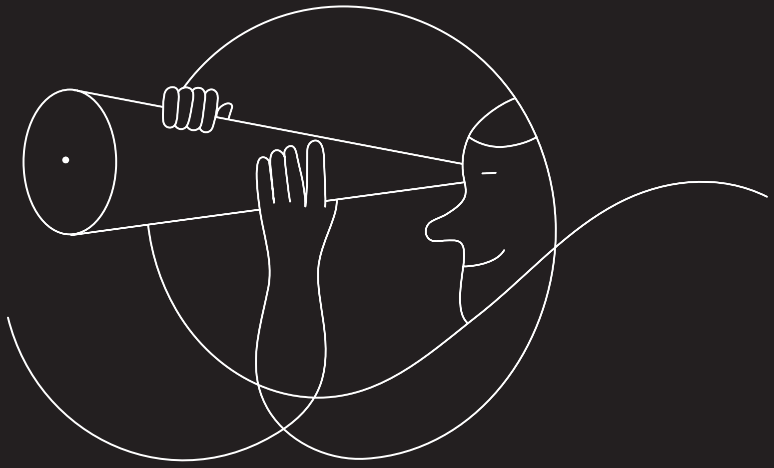
Until regulatory approval has been received and the transaction has closed, Wyth will have the same Board of Directors, executive leadership and strategy, and remain focused on running the business and serving customers.

Wyth's management and employees can be very proud that they've been part of reinventing, growing and modernizing a strong company and differentiated brand. On behalf of the Board, we thank the entire Wyth team for their hard work and commitment to customers and to building the future of banking. We'd also like to thank SaskCentral for their ownership and trust over the years. We'll keep focused on Wyth until it's time to join Equitable Bank and support their mission to be Canada's Challenger Bank.

**Lise De Moissac**
Chair of the Board

# Message from Don Coulter

In many ways, 2021 was another challenging year as climate-related events and COVID-19 variants disrupted people's lives, businesses and the global economy. I hope you and your loved ones are keeping safe and healthy and that in 2022, the virus will lessen its grip on us all. »



Fortunately, we were well prepared in the face of these crises and our bank remained resilient, sustained by strong levels of capital and liquidity and by prudent management of risk and expenses. Over the last four years, we've been shoring up our financial strength in the pursuit of our purpose: *Creating the future of banking to enable your success*. Our efforts have paid off and for the year ended December 31, 2021, we'd earned $43 million in net income, a record result. Our balanced approach to spreading growth across business lines led us to a combined revenue growth of 21% over 2020.

*Our balanced approach to spreading growth across business lines led us to a combined revenue growth of 21% over 2020.*

## SUPPORTING OUR CUSTOMERS AND COMMUNITIES

Our purpose not only drives our financial strength but also supports the success of our customers, employees, shareholders, communities, and the planet. Through our Empowering Your Community grant program, Wyth partners with Canadian credit unions to invest in community projects nationwide, such as initiatives related to mental and physical health; community infrastructure like firehalls, playgrounds, ice rinks; and poverty alleviation initiatives. Our employees also give back by using paid volunteer days to support their community.

In 2021, we contributed to relief efforts from the floods that damaged British Columbia, and we created an annual bursary and a scholarship for Indigenous students. And in December, we shared with Cinchy the *2021 Banking Technology Award for Best COVID Response Technology* for an online application we developed jointly to disburse Canada Emergency Business Account funds.

We also offer a great customer experience, helpful products and services, career development and a terrific place to work, and quarterly dividends. We have much to be proud of in terms of being a good employer and a model corporate citizen.

## NEW DIGITAL BANK

A major accomplishment in November 2021 was the launch of our cloud-based digital banking platform and mobile app, which we undertook from start to finish in just 10 months. This achievement has been recognized by our partners as one of the fastest implementations on record of a digital retail banking platform. Because we've completely redesigned what we do in the context of a true digital, single-code platform (with features such as digital two-way document transfers and secure in-app messaging), our new banking platform has improved customer experience and customer support.

We also launched a new website for customers, and a new portal for credit unions that features added automation over the old secure file exchange.

## NEW BRAND

Also in November, we launched our new brand and trade name, Wyth Financial. This brand is being well received in the retail market, with digital deposits, customers, website visits and leads all growing at a rapid rate. We're continually improving the customer and employee experience, and making our online banking platform, mobile app and back-end processes increasingly robust.

We built our world-class brand with the aim of differentiating ourselves in the areas of retail and commercial banking, consumer finance, Trust, and credit union and banking as a service offerings. Our specialized banking products, innovative and future-focused outlook, great partners and our aim to provide superior customer experience are all points of differentiation for us.

## CREDIT UNIONS

Wyth has specialized banking capabilities and federal banking powers that support the credit union system. Deepening relationships with credit unions is important to us, and in 2021 customer feedback from this sector was favourable and tracking above our target.

In 2021, we enhanced our credit union validation tool to incorporate previously disjointed processes into a user-friendly online tool that has been well receive by credit unions. Also, in June we finished onboarding credit unions to our partner portal, which offers a better user experience and improved cybersecurity over our previous secure file exchange.

The launch of our new foreign exchange (FX) platform in April has received positive client feedback and allowed us to transition most of our Saskatchewan credit union partners from trading manually via phone and email to self-service dealing on the platform.

By assisting credit unions to run their business efficiently and extend their product shelf, Wyth helps them to attract, retain and serve their members. As our bank has grown, so have our opportunities to share our capabilities and product set with credit unions.

## WYTH TRUST

Wyth Trust is the seventh-largest Trust company in Canada (out of 42) and has achieved ~73% penetration in the credit union market as the trustee for their registered plan products. In 2021, we appointed a new Head of the Trust division who has been with our company since 2013.

## PARTNERSHIPS

Ninety per cent of our work is supported through partnerships with innovative companies like Fintechs. In 2021, we hired a Senior Partnership Development Director with experience in business expansion and development and formalized our partnership funnel.

Wyth is nimble, which allows us to co-build innovative products and services with our partners and makes us attractive to Fintechs. We've earned a reputation as a reliable, innovative partner and we've been ramping up our efforts to attract, screen and develop productive partnerships.

## INNOVATION

Innovation is very important for us and in September we created a Senior Director, Innovation role that is accountable for driving an innovative mindset, owning innovation strategy and execution, the ideation and implementation of solutions that drive our purpose, and playing a leadership role within our Agile teams.

In 2021, the bank demonstrated a clear commitment to innovation through the delivery of a new cloud-based digital retail platform, bold new brand and a new website. We also expanded our offerings to customers through innovative Fintech partnerships.

In October, we held our fourth annual Hackathon, in which employees pitch ideas to a panel of their peers, who selected three ideas for exploration: socially responsible short-term lending, global wealth management abilities, and the creation of a green-economy portfolio.

We're cultivating an environment in which innovation thrives and drives business value. We're building an innovation ecosystem where innovation practices are driven by clear strategic direction and supported by tools and culture.

## OUR CULTURE

A key ingredient of our success is our great culture. For the past few years, we've worked hard to make ours a positive, performance-based culture. Our leadership principles have been progressing us to be an Agile, Customer-Obsessed, and Bold organization that works as One Team, while being Inspiring and Accountable. Throughout 2021, we've been articulating our target culture, which builds on our leadership principles, is aligned with our strategy, and is admired by other companies.

## CHANGES TO OUR STRATEGY, OPERATIONS AND STRUCTURE

In preparation for the launch of our new brand and digital banking platform, in 2021 we adjusted our corporate structure to support our strategy and the next stage of our growth.

With the retirement of our previous Chief Digital Officer, we hired a Chief Technology and Operations Officer to develop synergies between the digitization, automation, and operations of our company.

To build our core competencies in support of our digital bank, we also hired a Chief Digital Officer who is responsible for the end-to-end strategic development and execution of our digital business.

We also hired a VP, Customer Experience who is accountable for CX, the business strategy and roadmap for our digital platforms, and the implementation of platforms that drive an exceptional CX. And we expanded the mandate of our Customer Success Centre, to be responsible for sales and service, including digital deposits and digital mortgage sales originated from our digital channel.

We hired a new Chief Risk Officer to lead our risk management group (RMG), balance risk with growth and partner with the business in pursuit of our goals.

## LOOKING BACK AND LOOKING AHEAD

Pending regulatory approval, Equitable Bank will acquire Wyth Financial and Wyth Trust. The future looks bright for Wyth's employees and customers.

In getting the bank to this pivotal point in its long history, the Wyth team has lived our leadership principles and been bold, agile, customer-obsessed, accountable and inspiring. They've worked as one collegial team to deliver massive change in a short time, including building a new digital bank and new brand, new products and new partnerships. We've accomplished a lot together and our great culture, along with our growing revenue, book value and sales, are a testament to our success.

The executive leadership team and I are extremely proud of Wyth and its employees and we thank them for their dedication, drive and accomplishments.

We'll continue to uphold our value position as The Bank That Does and serve our customers and stakeholders well, until it's time to proudly consign our business into Equitable Bank's capable care.

**Don Coulter**
President and CEO

# Our employees

## PEOPLE AND TALENT

Throughout 2021, we grew our team significantly, ending the year with ~410 people at our fast-growing bank.

With a Canada-wide talent pool, a commitment to equal opportunity, and a reliable remote work strategy, there was no #GreatResignation here. We shared our vision with employees and got to work creating the future of banking.

Our team members use and improve their skills all the time and help identify where any gaps are and how to close them. We've invested in training opportunities and are planning to launch a new learning program and upskilling platform in 2022.

## DIVERSITY AND INCLUSION

We're upholding dignity, fairness and respect for all employees with more than our Diversity and Inclusion and Respectful Workplace policies.

In the past two years, we've increased representation of Indigenous peoples, members of visible minorities, people with disabilities, and women in three of our four career levels: support, professional and management. We attribute this in part to our ability to recruit talent from across Canada into our welcoming, flexible workplace culture.

We've established gender parity at the executive level and we've been forming an inclusion council that will help increase representation of underrepresented groups and help remove systemic barriers to diversity, equity and inclusion in our policies, practices and services.

Our employee-led diversity and inclusion volunteer group surveyed the organization to understand the issues and topics employees want Wyth to work on and support. Employee workshops and self-directed learning pathways create an inclusive corporate culture and more inclusive customer experiences. We're grateful to the Indigenous knowledge keepers and Indigenous entrepreneurs who spent time educating us last year, bringing more cultural and historical awareness to our employees and our operations.

*With a Canada-wide talent pool, a commitment to equal opportunity, and a reliable remote work strategy, Wyth has been growing rapidly.*

We've joined the Canadian Chamber of Commerce BIPOC Inclusion Council. Beyond sharing best practices, this council will drive change to address the challenges that Black, Indigenous and other People of Colour face in participating in the Canadian economy.

## ENGAGEMENT AND CULTURE

We measure employee engagement quarterly. On average, 84% of employees respond to these anonymous surveys. Our average engagement score of 76 continues to reflect strong employee engagement and other dimensions that measure our employees' commitment to Wyth.

Each quarter we receive and learn from more than 600 employee comments, both prescriptive and representative. This feedback strengthens the connection between our culture and strategies and positions us to be most effective.

Sometimes, people move along in their career. In our exit surveys, 86% of respondents said they would consider working for Wyth again, and 83% would recommend Wyth as a great place to work.

## TOTAL REWARDS

To be an employer of choice a company must offer the total package. We're committed to rewarding employees fairly and equitably, relative to each other and the external market in which we compete for talent.

Our best-practice approach to total rewards considers compensation, benefits, personal growth and culture. We focus on monetary components such as base pay and incentive compensation, as well as our benefit options, wellness programs, paid time off, flexible work environment, community involvement and opportunities for professional development and promotion.

## HEALTH AND WELLNESS

Supporting work-life balance and well-being is a responsibility we share with employees. We've adapted health and wellness activities since 84% of our team works remotely.

A few of this year's initiatives were short and sweet, like easy virtual ergonomic assessments and 10-minute mindfulness sessions. The monthly themes, team challenges and online yoga classes offered by our employee-driven wellness committee were also a hit.

Wyth offers a wellness benefit to reimburse employees for things like fitness classes and ergonomic office equipment. Our benefits package includes a competitive health care spending account, and a well-rounded employee family assistance program that offers access to additional resources that can enhance mental, emotional, and financial well-being.

We offer regular information sessions with partners from our pension plan, our benefits provider and other third parties, to let employees know what health and wellness services are available and how to access them. We also keep an eye on labour trends to remain an employer of choice and embrace the future of work.

## BEST MANAGED COMPANIES AWARD

For the last 18 years, Wyth has been one of Canada's Best Managed Companies.

**Concentra Bank**
Operating under the trade name
Wyth Financial

# Management's discussion and analysis

December 31, 2021

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") is provided to enable readers to assess the financial condition and results of operations of Concentra Bank for the year ended December 31, 2021. This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2021. This MD&A has been prepared with reference to the audited consolidated financial statements which are prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and all amounts are presented in Canadian dollars. This MD&A is current as of March 2, 2022 when it was approved by the Bank's Board of Directors (the "Board") on the recommendation of the Audit and Conduct Review Committee.

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time Concentra makes written and verbal forward-looking statements. These are included in the MD&A, periodic reports to shareholders, regulatory filings, press releases, Bank presentations and other Bank communications. Forward-looking statements are made in connection with business objectives and targets, Bank strategies, operations, anticipated financial results and the outlook for the Bank, its industry, and the Canadian economy. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, closing of transactions, performance or achievements of the Bank to be materially different from those expressed or implied by such forward-looking statements, including but not limited to risks related to capital markets and additional funding requirements, fluctuating interest rates and general economic conditions, legislative and regulatory developments, continued impacts of the COVID-19 pandemic, changes in accounting standards, the nature of customers and rates of default, competition, and other risks.

All material assumptions used in making forward-looking statements are based on management's knowledge of current business conditions and expectations of future business conditions and trends, including, among other things, their knowledge of the current credit, interest rate and liquidity conditions affecting the Bank and the Canadian economy. Although the Bank believes the assumptions used to make such statements are reasonable at this time, there may be other factors that cause results not to be as anticipated, estimated or intended. Certain material assumptions are applied by the Bank in making forward-looking statements, including without limitation, assumptions regarding its continued ability to fund its lending business, a continuation of the current level of economic uncertainty that affects market conditions, continued acceptance of its products in the marketplace, and the current tax regime. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Bank does not undertake to update any forward-looking statements that are contained herein.

## OVERVIEW

Concentra Bank (the "Bank" or "Concentra"), is a Schedule 1 chartered bank, pursuant to the Bank Act (Canada). With its bank charter, Concentra is able to operate in all provinces and territories providing a range of banking services. The Bank also provides trust services through its federally regulated subsidiary, Concentra Trust. Effective November 15, 2021 the Bank began operating under the trade names Wyth Financial and Wyth Trust respectively. Regulated by the federal Office of the Superintendent of Financial Institutions Canada ("OSFI") with total assets of $10.9 billion and total assets under administration of $36.1 billion, Concentra forms an important part of Canada's co-operative system as an organization owned by the credit union system. For more information visit the Bank's website at www.wyth.ca/about-us and click on Investor Relations.

## CORPORATE PROFILE

As a credit union owned Schedule 1 chartered bank, Concentra (operating under the trade name Wyth Financial since November 15, 2021) brings a competitive advantage to the credit union system through its ability to conduct business across the entire country. With an emphasis on building strong partnerships with credit unions, Fintechs, and other entities, Concentra is able to offer a broad range of products and services to our customers.

### Ownership

Credit Union Central of Saskatchewan ("SaskCentral") holds 84.0% of the voting rights and is the controlling shareholder of the Bank. The remaining 16.0% of the common shares are held by various credit unions and co-operative entities across the country.

**Significant Development in Ownership:** On February 7, 2022 the Bank's controlling shareholder, SaskCentral, holding 84.0% of the voting rights of the Bank entered into a share purchase agreement with Equitable Bank ("Equitable") to sell SaskCentral's entire ownership stake in the Bank. Equitable also entered into support agreements with additional common shareholders representing a majority of the remaining 16.0% of voting rights. The sale was unanimously approved by the Boards of Directors of SaskCentral, the Bank and Equitable. The sale is subject to satisfaction of customary closing conditions and receipt of regulatory approvals which is expected to occur in the latter half of 2022, including those required under the Bank Act (Canada), the Trust and Loans Companies Act (Canada), and the Competition Act (Canada).

Until the regulatory approval process closes, Concentra remains owned by its current shareholders and remains focused on executing its strategy.

### Long-term Objectives and Strategic Priorities

**Purpose:**
Creating the future of banking, to enable your success.

**Mission:**
To connect, elevate and partner with business owners, consumers and credit unions.

Concentra is a purpose driven organization, and is focused on the following **core competencies**:

- **Specialization** – specializing in products and services that are often overlooked by the larger institutions.
- **Partnering** – partnering with credit unions, Fintechs, and other third parties.
- **Innovation** – looking at new ways to do things, supporting and creating innovative solutions, and fostering a culture of innovation across the organization.

In achieving our strategy, we need to build upon our core foundation, with key investments continuing in the following areas:

- **Smart Digital** investments in digital efforts that will add operational efficiencies to the organization through automation, as well as improve our customer experiences.
- **Enhanced People Capabilities** with a focus on continuing to add talented team members to the organization, supporting all team members on their development and career journeys, and improving our internal resources available. Key enhancements in the last year include improving internal training offerings and continuing to improve our support of the fully remote working model for our team in the face of the COVID-19 pandemic.
- **Grow Partnerships with Credit Unions** with a focus on continuing to expand our relationships with credit unions and offering products that are valued by the credit union system.
- **Strengthened Foundation/Operational Excellence** which includes strengthening all areas of the business in a continuous improvement mindset.

## PARTNERSHIP SPOTLIGHT


The Bank is focused on creating the future of banking, which involves partnering with other organizations including a focus on Financial Technology (Fintech) partnerships.

In 2021, we were recognized jointly with one of our key partners (Cinchy) with the '2021 Banking Technology Award' for best 'COVID Response Technology' at the 22nd annual Banking Tech Awards from FinTech Futures.[1] We will continue to leverage our Cinchy partnership to move toward data-centricity and to deliver stronger analytics to support our business decisions and to find innovative solutions.

The Bank has many other important partners that are contributing to the organization in many areas, such as strengthening our technology solutions, streamlining processes such as mortgage origination, providing the Bank with access to deposit and loan products we do not offer directly, and more.

Partnering is a core competency of the Bank and we actively look at potential partners throughout the year, conduct our due diligence to ensure there is a good strategic fit and decline opportunities where it does not make sense, and where it does make sense, we aspire to onboard partners in an efficient painless manner.

[1] Refer to the news release from BusinessWire on Dec 9, 2021 titled "Concentra Bank and Cinchy Share Award for 'Best Core Banking Solution Provider for COVID-19 Rapid Response'"

## Business Line Overview

Concentra offers a diverse and competitive range of solutions to its clients through its two primary areas of business:

### Banking

Banking is organized around the following portfolios of products/services:

- **Retail Banking**: The Bank approaches retail banking in two ways:
  - Direct offering – where a direct offering is made available to retail customers directly through our website and mobile mortgage specialists, with the product focus currently being deposit and mortgage products.
  - Partnerships with external originators - where the Bank funds residential mortgages and consumer loans, and sources deposits through partnerships with external originators.
- **Commercial Banking**: The Bank offers lending, leasing, and deposit solutions to commercial businesses.
- **Credit Unions**: The Bank offers a number of products specifically for credit union clients, including deposits, intermediary derivative and foreign exchange products as well as asset-liability management consulting. The Bank also syndicates commercial and retail assets to credit unions and facilitates credit union participation in the National Housing Act Mortgage-Backed Securities ("NHA MBS") program through the provision of expertise and administrative support.
- **Treasury**: The treasury function issues notes to source funding from the capital markets, manages securitization issuances, manages the investment portfolios, and conducts derivative transactions to manage balance sheet risk.

### Trust

The Trust business is delivered through the Bank's wholly owned subsidiary, Concentra Trust (operating under the trade name Wyth Trust), and includes the following portfolios of products/services:

- **Registered Plans**: offers trustee and administrative services to credit unions and other organizations for a range of registered plan programs, such as RRSPs and other products.
- **Corporate Trust**: offers a wide range of corporate trust services including cemetery and funeral trusts, corporate issuances, custodianship, escrows and resource trusts.
- **Estates and Trusts**: specializes in planning and administering estates and trusts, acting as corporate executor, power of attorney or property guardian, along with other trustee and trust administration duties.

## KEY PERFORMANCE INDICATORS

### Non-GAAP Measures

Management monitors and reports a range of metrics to assess the performance of the business and the effectiveness of its strategy. A number of these measures are calculated using numbers which are not in accordance with GAAP or are not defined by GAAP and therefore do not have a standardized meaning that would ensure consistency and comparability with other companies. The key non-GAAP measures included in the MD&A are as follows:

| Non-GAAP Measures | What it Represents and Why it Matters |
|---|---|
| Return on Equity ("ROE") | • The earnings and returns that we are able to generate for our common shareholders, relative to the book value of our common equity<br>• This measure demonstrates how efficiently we are using the investments that shareholders have made to generate profits |
| Efficiency Ratio | • Non-interest expenses as a percentage of total revenue<br>• Gauges how much it costs us to generate each dollar of total revenue and indicates how efficiently we operate |
| Operating Leverage Ratio | • The difference between the year-over-year growth rate of total revenue and the year-over-year growth rate of non-interest expenses less incentive compensation and capital and excise tax<br>• The measure ensures that operations as a whole are growing profitability |
| Return on Investment ("ROI") | • The dividends declared to common shareholders expressed as a percentage of their original invested capital |
| Capital to Risk Weighted Assets | • The amount of loss absorbing capital invested in our business relative to the size of our risk adjusted asset base as prescribed by OSFI<br>• Total regulatory capital is divided into three tiers: Common Equity Tier 1 (common equity), Tier 1 (qualifying preferred equity) and Tier 2 (general allowances)<br>• Signifies our ability to protect our deposits and shareholders in the event of financial stress |
| Leverage Ratio | • The leverage ratio assesses the ability of a company to meet financial obligations. At Concentra, this is reflected as Tier 1 capital divided by total balance sheet exposure as prescribed by OSFI<br>• This measure supports our ability to maintain a prudent capital structure to support our asset base |

## FINANCIAL HIGHLIGHTS & OUTLOOK

### 2021 Highlights

**Table 1: Select Financial Information**
**For the Year Ended December 31**

| *(Thousands of Canadian Dollars)* | 2021 | 2020 | 2019 |
|---|---|---|---|
| **Results of Operations** | | | |
| Total revenue[1] | **$ 146,607** | $ 121,307 | $ 120,988 |
| Net interest income | **123,370** | 95,944 | 96,428 |
| Non-interest income | **23,237** | 25,363 | 24,560 |
| Non-interest expense | **89,365** | 77,605 | 71,382 |
| Net income | **43,088** | 25,383 | 30,082 |
| **Credit Quality** | | | |
| Net impaired loans | **12,058** | 26,528 | 40,705 |
| Net impaired loans as % of gross loans | **0.13%** | 0.30% | 0.54% |
| Provision for credit (recoveries) losses | **(1,709)** | 8,894 | 6,894 |
| Provision for credit (recoveries) losses as % of gross loans | **(0.02%)** | 0.10% | 0.09% |
| **Financial Ratios** | | | |
| Return on equity | **9.2%** | 5.2% | 6.6% |
| Efficiency ratio | **61.0%** | 64.0% | 59.0% |
| Operating leverage ratio | **6.5%** | (6.8%) | (7.5%) |
| Return on investment | **4.0%** | 4.0% | 4.0% |
| **Capital Adequacy Ratios** | | | |
| Common Equity Tier 1 capital to risk weighted assets | **12.5%** | 12.7% | 13.1% |
| Tier 1 regulatory capital to risk weighted assets | **15.8%** | 16.3% | 17.1% |
| Total regulatory capital to risk weighted assets | **16.4%** | 16.9% | 17.7% |
| Leverage ratio | **4.6%** | 4.4% | 5.2% |

[1] Calculated as net interest income, plus non-interest income.

## 2022 Outlook

### Corporate Strategy

**Looking back**, 2021 was a momentous year.

Financially, 2021 was a record year for total revenue with $147 million in net interest income and non-interest income and a record year for total net income at $43 million. A key driver leading to this record financial performance was our net interest margin, which expanded during 2021 and is carrying momentum into 2022.

In execution of our strategy, 2021 was full of milestones.

- Launched our new brand as "Wyth Financial" that is aligned to our compelling value position of being "The Bank that Does™."
- New website was successfully launched at wyth.ca.
- New mobile application and web portal launched for personal online banking, setting the digital foundation for our direct retail customers. We are receiving positive feedback and seeing strong levels of growth and customer acquisition since launch.
- Significant internal automation efforts were delivered across multiple areas of the business, improving how we operate our business.

Concentra continues to focus on our digital strategy and modernization of the Bank with a diversification shift from its legacy indirect model to a more direct-to-consumer model through a mixture of direct to consumer businesses or aided through partnerships.

Despite the COVID-19 backdrop, Concentra accomplished many important things in 2021 and is on its journey to become "The Bank that Does™" as we continue to build on that momentum going into 2022.

**Looking ahead**, 2022 is poised to be a year of evolution for Concentra. As a result of the announcement on February 7th where Concentra will be acquired by Equitable Bank, the initial planned project portfolio for 2022 was reassessed. The revised focus for 2022 is on maintaining what has been built and undertaking projects in select areas that will improve automation and efficiency, support our credit union clients, and improve our core infrastructure in select areas.

*__2021__ was a record year of financial performance.*

Concentra will also be engaging with Equitable to contribute to an integration plan so the combined organization can hit the ground running on integration after regulatory approvals are received, which is expected in the latter part of 2022. There are many aspects of the integration plan that need to be developed, but it is notable that upon close of the transaction, Equitable's platform is expected to become the sole digital platform for the combined entity.

### Asset Growth

Moderate asset growth is expected in 2022, as Concentra ensures capital levels are managed prudently and risk weighted asset (RWA) growth does not far outpace the growth rate of capital expansion through the monthly retained earnings growth. In 2022, the largest areas of growth are anticipated to come from:

- Increased residential Alt-A asset origination
- Expansion in the commercial lending portfolio, and
- Increased credit card receivable balances through a FinTech partnership as the program grows and matures.

### Credit Quality

Concentra's credit performance in 2021 was strong as our team was able to work with borrowers and partners to resolve many of our impaired commercial loans. We did not see significant impairments in asset quality, and as the economic projections improved we were able to release some of our provisioning during 2021. In 2022, Concentra expects credit losses consistent with historical norms, however collective provisions related to IFRS 9 continue to be volatile as economic forecasts have a strong impact on the provisions for credit loss.

The Bank will continue to monitor existing portfolios and manage new originations volumes to ensure appropriate balance between risk and return.

### Results of Operations

Concentra will continue to focus on optimizing the loan portfolio composition for higher risk adjusted return on capital. With a rising rate environment expected in 2022, Concentra will be prudently managing the balance sheet to focus on stability in monthly net interest income for the bank.

After a period of relatively flat non-interest revenue, there is a renewed focus in 2022 on expanding the non-interest revenue earned from our fee generating business lines such as those offered by Concentra Trust. This will be a key focal point in 2022.

Non-interest expenses are expected to increase in 2022 as we support corporate projects delivering the mantra of maintain and invest in select areas and incur costs to position the organization and its workforce for a successful integration with Equitable.

### Significant Developments: COVID-19

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. Multiple variants have since emerged, including the most recent variant called Omicron which was declared a variant of concern by the World Health Organization on November 26, 2021. With higher levels of transmission, but lower levels of hospitalization, the impact of the Omicron variant is uncertain; however the data to date is showing a short peak to trough cycle, with South Africa for example experiencing a spike beginning in late November 2021 and peaking around 30 days later.

The Canadian response to Omicron has been varied by province, however the Chief Medical Officer reported on January 21, 2022 that there are "early indications that infections may have peaked at the national level" so there is optimism that the variant will be a short-lived concern and have minimal disruption.

Overall, with broad vaccine distribution, public health measures, and government intervention the Canadian economy has fared well since the pandemic began, and the Bank has not had any negative impacts to our results in 2021.

The Bank continues to monitor the impacts of COVID-19 on our lending portfolio, and takes prudent measures to protect our staff, clients, and partners.

## FINANCIAL REVIEW – RESULTS OF OPERATIONS

### Net Interest Income

Net interest income represents the difference between the interest earned on assets and interest paid on deposits and other funding liabilities. The Bank measures its interest income and expense as a percentage of the associated earning assets and funding liabilities (effective yield). Net interest margin represents the difference between the effective yields of the Bank's earning assets and funding liabilities.

**Table 2: Net Interest Income and Margin**

| For the Year Ended December 31 | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| *(Thousands of Canadian Dollars)* | Average Balance | Mix (%) | Interest | Yield (%) | Average Balance | Mix (%) | Interest | Yield (%) |
| **Assets** | | | | | | | | |
| Cash | $ 635,139 | 6 | $ 2,642 | 0.42 | $ 707,213 | 7 | $ 6,040 | 0.85 |
| Securities | | | | | | | | |
| Corporate portfolio | 1,288,293 | 12 | 13,452 | 1.04 | 810,539 | 8 | 11,724 | 1.45 |
| Securitized portfolio | 346,781 | 3 | 2,315 | 0.67 | 414,090 | 4 | 4,763 | 1.15 |
| Loans | | | | | | | | |
| Residential mortgages – securitized | 4,078,545 | 36 | 84,975 | 2.08 | 3,732,996 | 36 | 83,960 | 2.25 |
| Residential mortgages – non-securitized | 3,169,490 | 28 | 97,126 | 3.06 | 2,794,530 | 28 | 95,546 | 3.42 |
| Consumer term loans [(1)] | 513,826 | 5 | 26,863 | 5.23 | 493,115 | 5 | 26,741 | 5.42 |
| Credit card receivables[(1)] | 31,328 | - | 1,648 | 5.26 | - | - | - | - |
| Commercial mortgages, loans & leases | 900,983 | 8 | 43,417 | 4.82 | 986,248 | 10 | 45,626 | 4.63 |
| Other securitization assets | 89,616 | 1 | 2,047 | 2.28 | 88,405 | 1 | 1,533 | 1.73 |
| **Total Earning Assets** | 11,054,001 | 99 | 274,485 | 2.48 | 10,027,136 | 99 | 275,933 | 2.75 |
| Other assets | 76,165 | 1 | - | - | 81,883 | 1 | - | - |
| **Total Assets** | $ 11,130,166 | 100 | $ 274,485 | 2.47 | $ 10,109,019 | 100 | $ 275,933 | 2.73 |
| **Liabilities & Shareholders' Equity** | | | | | | | | |
| Deposits | | | | | | | | |
| Credit union | $ 3,181,094 | 29 | $ 23,902 | 0.75 | $ 1,958,764 | 19 | $ 19,722 | 1.01 |
| Retail | 2,557,627 | 23 | 58,091 | 2.27 | 2,954,895 | 29 | 79,148 | 2.68 |
| Commercial | 523,932 | 5 | 4,309 | 0.82 | 394,290 | 4 | 3,641 | 0.92 |
| Capital Markets | 357,072 | 3 | 4,508 | 1.26 | 231,966 | 2 | 4,189 | 1.81 |
| Securitization Liabilities | | | | | | | | |
| CMB program | 791,270 | 7 | 13,197 | 1.67 | 1,323,801 | 13 | 21,640 | 1.63 |
| NHA MBS program | 2,951,600 | 27 | 44,004 | 1.49 | 2,233,725 | 22 | 43,806 | 1.96 |
| Multi-seller conduit | 48,191 | - | 1,341 | 2.78 | 73,569 | 1 | 1,927 | 2.62 |
| Loans and notes payable | | | | | | | | |
| Lines of credit | 11,994 | - | 139 | 1.16 | 12,684 | - | 182 | 1.43 |
| Bearer deposit notes | 115,337 | 1 | 847 | 0.73 | 268,172 | 3 | 4,571 | 1.70 |
| Repurchase agreements | 4,550 | - | 9 | 0.20 | 65,589 | 1 | 401 | 0.61 |
| **Total Funding Liabilities** | 10,542,667 | 95 | 150,347 | 1.43 | 9,517,455 | 94 | 179,227 | 1.88 |
| Other liabilities | 39,831 | - | 768 | 1.93 | 64,796 | 1 | 762 | 1.18 |
| Shareholders' equity | 547,668 | 5 | - | - | 526,768 | 5 | - | - |
| Total Liabilities & Shareholders' Equity | $ 11,130,166 | 100 | $ 151,115 | 1.36 | $ 10,109,019 | 100 | $ 179,989 | 1.78 |
| Net Interest Income and Margin | | | $ 123,370 | 1.11 | | | $ 95,944 | 0.95 |

[(1)] Interest income on consumer term loans and credit card receivables is presented net of $18,935 (2020 - $15,452) and $1,568 (2020 - $nil), respectively, in fees paid to third parties in exchange for providing limited financial guarantees over certain portfolios held by the Bank. These fees are reported within other direct expenses in the consolidated statement of income in accordance with the requirements of IFRS.

Net interest margin (NIM) expanded during the year. While total asset yields for the Bank lowered during 2021 due to new volumes and renewals repricing at lower market rates, the Bank's cost of funds lowered at a faster rate due to a higher mix of credit union deposits throughout 2021 and benefitting from the low interest rate environment. The Bank also launched a credit card receivables portfolio in partnership with a Fintech partner during 2021 and introduced new commercial mortgages and loan products resulting in higher asset yields on those products. As such, the net interest margin was able to widen during the year, which positively impacted results. The Bank continues to manage interest rate risk within acceptable risk levels.

## Provision for Credit Losses

The provision for credit losses includes both the expected shortfall in cash flows on individual loans and portfolios of loans ("unrealized") and write-offs/recoveries on loans which are no longer considered collectible ("realized").

**Table 3: Provision for Credit Losses**

| For the Year Ended December 31 | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| (Thousands of Canadian Dollars) | Unrealized | Realized | Total | Unrealized | Realized | Total |
| **Retail Portfolio** | | | | | | |
| Residential mortgages | $ 1,111 | $ 265 | $ 1,376 | $ 1,253 | $ 303 | $ 1,556 |
| Consumer term loans | (1,342) | 1,096 | (246) | (78) | 2,056 | 1,978 |
| Credit card receivables | 2,167 | 234 | 2,401 | - | - | - |
| **Commercial Portfolio** | | | | | | |
| Mortgages and loans | (14,901) | 8,526 | (6,375) | 5,211 | (23) | 5,188 |
| Finance leases | 586 | 583 | 1,169 | (460) | 351 | (109) |
| **Securities** | (34) | - | (34) | 281 | - | 281 |
| **Total Provision for Credit Losses** | $ (12,413) | $ 10,704 | $ (1,709) | $ 6,207 | $ 2,687 | $ 8,894 |
| **% of gross assets** | | | | | | |
| **Retail Portfolio** | | | | | | |
| Residential mortgages | 0.01 | 0.00 | 0.02 | 0.02 | 0.00 | 0.02 |
| Consumer term loans | (0.24) | 0.19 | (0.04) | (0.01) | 0.39 | 0.38 |
| Credit card receivables | 2.25 | 0.24 | 2.49 | - | - | - |
| **Commercial Portfolio** | | | | | | |
| Mortgages and loans | (2.05) | 1.17 | (0.88) | 0.74 | 0.00 | 0.74 |
| Finance leases | 0.25 | 0.25 | 0.51 | (0.23) | 0.18 | (0.05) |
| **Securities** | 0.00 | 0.00 | 0.00 | 0.02 | 0.00 | 0.02 |
| **Total Provision for Credit Losses** | (0.12) | 0.10 | (0.02) | 0.06 | 0.03 | 0.10 |

In 2021, the Bank recognized $1.7 million in credit recoveries compared to a $8.9 million expense in 2020. The Provision for Credit Losses ("PCL") includes additions to the Bank's expected credit loss ("ECL") allowances, net of any realized write-offs or recoveries during the year, plus the impact of a limited financial guarantee for the Bank's consumer lending portfolio.

The COVID-19 pandemic continues to impact the Canadian economy and has resulted in unemployment sustaining throughout 2021 above pre-pandemic levels. Since the outset of the pandemic, the Bank has actively managed credit risk in its commercial portfolio by reducing exposures to high risk industry sectors by way of selling loans and forgoing to renew certain loans upon maturing of the contractual term. The commercial portfolio experienced a recovery in unrealized PCLs in 2021 due to the settling of various non-productive commercial accounts, as well as implementation of a new borrower risk rating and facility risk rating system for the commercial portfolio, which required implementing new probability of default and loss given default parameters used within the Bank's ECL allowance for the new rating system.

PCLs for the Bank's residential mortgage portfolio were consistent with 2020 as the impact of new volumes funded and the incremental ECL allowances recorded was offset by more optimistic macroeconomic conditions experienced than forecasted at the end of 2020 for unemployment and house price indexes. The Bank's consumer term loans portfolio is primarily composed of loans that are structured to include a partial financial guarantee which positively impacts PCLs. Unrealized PCLs for the Bank's newly launched credit card receivables portfolio resulted from recording Stage 1 ECL allowances upon funding of the receivable balance.

Realized losses totaled $10.7 million in 2021 compared to $2.7 million in 2020. This increase was due to higher write-offs within the commercial mortgages and loans portfolio as several non-productive accounts that defaulted prior to the pandemic were settled and shortfalls written off. Realized losses in the Bank's other portfolios were comparable to past years. As of December 31, 2021, the pandemic has not had a material impact on realized write-offs as loan deferral arrangements lessened the potential number of defaults that could have otherwise occurred.

For further discussion on the credit performance of the Bank's loans portfolio and the impacts of the ECL model, refer to the Credit Quality section in the MD&A including Table 9: Loan Credit Quality and Allowance for Credit Losses.

## Non-Interest Income

The Bank's non-interest income consists of the following major components:

- **Fee-for-service income**: fees generated through the Banking and Trust businesses as well as ancillary rental income.
- **Gain on financial instruments**: realized and unrealized gains and losses on financial instruments reported in net income. This includes loan and security sales, gains from securitizations, and the effects of derivatives which are not in designated hedging relationships.

**Table 4: Non-Interest Income**

| **For the Year Ended December 31** | | | **Change** | |
|---|---|---|---|---|
| (Thousands of Canadian Dollars) | **2021** | **2020** | **$** | **%** |
| **Fee-for-service Income** | | | | |
| Commercial and retail banking | **$ 9,139** | $ 8,123 | 1,016 | 13 |
| Trust | **9,094** | 9,194 | (100) | (1) |
| Rental | **633** | 633 | - | - |
| | **18,866** | 17,950 | 916 | 5 |
| **Gain on Financial Instruments** | | | | |
| Unrealized and realized gains (losses) on securities | **2,512** | (881) | 3,393 | 385 |
| Ineffective portion of fair value hedges | **97** | (56) | 153 | 273 |
| Realized gains on loans | **271** | 2,950 | (2,679) | (91) |
| Gain on derecognized securitizations | **1,438** | 5,838 | (4,400) | (75) |
| Unrealized and realized gains (losses) on derivatives | **53** | (438) | 491 | 112 |
| | **4,371** | 7,413 | (3,042) | (41) |
| **Total Non-Interest Income** | **$ 23,237** | $ 25,363 | (2,126) | (8) |

Non-interest income decreased slightly from prior year, finishing the year at $23.2 million compared to $25.4 million in 2020. The modest decrease in non-interest income is primarily attributed to the following:

- Commercial and retail banking fees increased 13% over the prior year due to higher billings related to delivery of the Canadian Emergency Business Account (CEBA) program and fees charged to the Bank's various commercial, credit union and retail clients.

- Gains on securities in the current year of $2.5 million due to unrealized gains on the valuation of certain investment fund securities.
- Realized gains on loans decreased by $2.7 million over prior year due to profits realized in 2020 by the Bank selling a sub-portfolio of the consumer loans portfolio back to the originating entity, as well as gains from sales in 2020 for the sale of certain commercial loans sold to manage credit risk exposure.
- Gains from derecognized securitizations decreased by $4.4 million in 2021 due to a lower volume of insured multi-family and social housing mortgages securitized into the Canadian Mortgage and Housing Corporation ("CMHC") sponsored programs.

## Non-Interest Expense

**Table 5: Non-Interest Expense**

| For the Year Ended December 31<br>(Thousands of Canadian Dollars) | 2021 | 2020 | Change $ | Change % |
|---|---|---|---|---|
| **Salaries and Employee Benefits** | | | | |
| Salaries | **$ 37,775** | $ 33,096 | 4,679 | 14 |
| Termination benefits | **952** | 732 | 220 | 30 |
| Employee benefits | **8,263** | 6,838 | 1,425 | 21 |
| Incentive compensation | **7,603** | 5,556 | 2,047 | 37 |
| | **54,593** | 46,222 | 8,371 | 18 |
| **Information Technology** | | | | |
| Computer software/hardware and equipment | **10,943** | 8,518 | 2,425 | 28 |
| Depreciation and amortization | **1,307** | 1,172 | 135 | 12 |
| | **12,250** | 9,690 | 2,560 | 26 |
| **Other Operating Expenses** | | | | |
| Administrative | **4,357** | 3,862 | 495 | 13 |
| Insurance and licenses | **2,836** | 3,071 | (235) | (8) |
| Marketing and public relations | **1,165** | 935 | 230 | 25 |
| Governance | **713** | 706 | 7 | 1 |
| | **9,071** | 8,574 | 497 | 6 |
| **Professional and Advisory Services** | | | | |
| Consulting and other professional fees | **6,007** | 5,036 | 971 | 19 |
| Legal fees | **1,377** | 1,410 | (33) | (2) |
| | **7,384** | 6,446 | 938 | 15 |
| Occupancy | | | | |
| Rent | **521** | 764 | (243) | (32) |
| Maintenance and other property expenses | **638** | 740 | (102) | (14) |
| Depreciation | **929** | 1,137 | (208) | (18) |
| | **2,088** | 2,641 | (553) | (21) |
| **Capital and excise taxes** | **3,979** | 4,032 | (53) | (1) |
| **Total Non-Interest Expense** | **$ 89,365** | $ 77,605 | 11,760 | 15 |
| **Key Expense Ratios:** | | | | |
| Efficiency ratio | **61.0%** | 64.0% | | |
| Operating leverage ratio | **6.5%** | (6.8%) | | |

Non-interest expenses increased 15% in 2021 finishing the year at $89.4 million. The increase was primarily attributed to the following:

- Salaries and employee benefits increased 18% year-over-year. The Bank made significant investments in strategic human capital, including information technology, marketing and operations to enable its digital strategy.
- Information technology increased $2.6 million as the Bank expands its technology in order to support the increasing digital demand of the Bank's strategic initiatives.
- Other operating expenses increased $0.5 million due to development and launch of the Bank's new tradename and website.
- Professional and advisory services increased $0.9 million due to the use of consultants for the Bank's new strategic initiatives and products.

Although non-interest expenses increased by 15% in 2021, net interest income increased by 29% and resulted in the Bank's efficiency ratio finishing the year at 61.0%. The operating leverage ratio improved during 2021 as the increase in total revenues exceeded the increases in expenses resulting from strategic investments being made in the Bank.

## Other Comprehensive Income

The Bank's other comprehensive income ("OCI") consists of gains/losses on the fair value through other comprehensive income (FVOCI) securities, FVOCI loans and derivatives designated as cash flows hedges for securitization liabilities.

**Table 6: Other Comprehensive (Loss) Income**

| **For the Year Ended December 31** | | | **Change** | |
|---|---|---|---|---|
| (Thousands of Canadian Dollars) | **2021** | **2020** | **$** | **%** |
| **FVOCI Securities** | | | | |
| Net unrealized (losses) gains | **$ (12,400)** | $ 11,713 | (24,113) | (206) |
| Realized gains reclassified to net income | **(283)** | (32) | (251) | (784) |
| Impairment (recovery) losses reclassified to net income | **(34)** | 281 | (315) | (112) |
| Income tax recovery (expense) | **3,419** | (3,222) | 6,641 | 206 |
| | **(9,298)** | 8,740 | (18,038) | (206) |
| **FVOCI Loans** | | | | |
| Net unrealized (losses) gains | **(11,765)** | 9,265 | (21,030) | (227) |
| Realized gains reclassified to net income | **(236)** | (386) | 150 | 39 |
| Impairment losses reclassified to net income | **1,012** | 11 | 1,001 | 9,100 |
| Income tax recovery (expense) | **2,956** | (2,394) | 5,350 | 223 |
| | **(8,033)** | 6,496 | (14,529) | (224) |
| **Cash Flow Hedges** | | | | |
| Realized gains (losses) on designated derivatives | **2,780** | (7,121) | 9,901 | 139 |
| Reclassification of losses to net income | **91** | 391 | (300) | (77) |
| Income tax recovery (expense) | **(772)** | 1,813 | (2,585) | (143) |
| | **2,099** | (4,917) | 7,016 | 143 |
| **Total Other Comprehensive (Loss) Income** | **$ (15,232)** | $ 10,319 | (25,551) | (248) |

In 2021, other comprehensive loss totaled $15.2 million compared to $10.3 million income in 2020. In 2020, the Bank benefited from a decreasing rate environment, while in 2021 increases in sovereign benchmark yields have resulted in the Bank's portfolio of securities and loans measured as fair value through OCI and carrying fixed interest rates declining in value compared to 2020.

### Income Taxes

As a Schedule 1 bank with operations across Canada, the Bank is subject to income tax in multiple jurisdictions. The Bank's effective tax rate for 2021 was 26.9%, consistent with 2020.

### Related Party Transactions

Certain of the Bank's directors and key management personnel are indebted to the Bank or have invested in its deposits in the ordinary course of business, on market terms and conditions. See Note 20 to the audited consolidated financial statements for further details.

## FINANCIAL REVIEW – BALANCE SHEET

### Loans

The Bank maintains portfolios of both retail and commercial loans. These portfolios are primarily sourced through third party brokers, credit unions, and other originators. The Bank's lending activity extends beyond funding and holding loans on-balance sheet as the Bank provides a valuable service to the credit union system through its sales and syndication activities. These activities include both partnering with an originating credit union to help fund transactions that would otherwise be too large for a single funder, and by leveraging its outside partnerships to allow credit unions to participate in deals that would otherwise be inaccessible to them.

**Table 7: Loans Receivable**

| **As at December 31** (Thousands of Canadian Dollars) | **2021** | **2020** | **Change $** | **%** |
|---|---|---|---|---|
| **Retail Portfolio** | | | | |
| Residential mortgages – insured | **$ 4,188,126** | $ 4,998,030 | (809,904) | (16) |
| Residential mortgages – uninsured | **3,294,586** | 2,438,650 | 855,936 | 35 |
| Consumer term loans | **565,740** | 527,116 | 38,624 | 7 |
| Credit card receivables | **96,303** | - | 96,303 | 100 |
| | **8,144,755** | 7,963,796 | 180,959 | 2 |
| **Commercial Portfolio** | | | | |
| Mortgages | **533,066** | 563,028 | (29,962) | (5) |
| Term loans | **186,803** | 136,682 | 50,121 | 37 |
| Lines of credit and overdrafts | **5,876** | 405 | 5,471 | 1,351 |
| Finance leases | **230,106** | 199,662 | 30,444 | 15 |
| | **955,851** | 899,777 | 56,074 | 6 |
| **Total Gross Loans** | **$ 9,100,606** | $ 8,863,573 | 237,033 | 3 |
| Allowance for credit losses | **(22,409)** | (34,732) | 12,323 | (35) |
| **Total Loans Receivable** | **$ 9,078,197** | $ 8,828,841 | 249,356 | 3 |

In 2021, the Bank experienced a 3% increase in total loans, which was driven by significant growth within its retail portfolio.

The retail portfolio increased by 2% over the prior year, finishing the year with a balance of $8.1 billion. Growth in the Bank's uninsured residential mortgages, consumer loans and credit card receivables drove the growth in retail with significant volumes brought on in the latter half of the calendar year. Consumer term loans grew $38 million compared to the prior year with the majority of the growth within a sub-portfolio carrying a limited financial guarantee backed by a cash reserve account held on deposit with the Bank, reducing the credit risk exposure. As at December 31, 2021 approximately 91% of the consumer portfolio is now covered by the limited financial guarantee as compared to 83% in the prior year.

The commercial portfolio increased 6% over the prior year, finishing the year with a balance of $1.0 billion. This growth was concentrated in the Bank's term loan and finance leases portfolios. The Bank continues to manage exposures to higher risk industries such as hospitality, construction and commercial real estate by managing the renewal process to limit credit exposure on higher risk accounts for industries impacted by the economic slowdown caused by the pandemic. Refer to Note 18.1.4 of the Consolidated Annual Financial Statements for further detail on the Bank's credit exposures by industry.

**Table 8: Loans Geographic Concentration**
**As at December 31**

| | 2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (Thousands of Canadian Dollars) | **BC** | **AB** | **SK** | **MB** | **ON** | **QC** | **ATL** | **Other** |
| **Retail Portfolio** | | | | | | | | |
| Residential mortgages | **$ 1,052,316** | **$ 1,482,345** | **$ 252,037** | **$ 116,518** | **$ 4,282,516** | **$ 7,134** | **$ 289,573** | **$ 273** |
| Consumer term loans | **47,549** | **87,369** | **21,099** | **16,820** | **172,416** | **176,819** | **42,669** | **999** |
| Credit card receivables | **16,224** | **13,478** | **1,530** | **2,595** | **42,348** | **18,778** | **1,287** | **63** |
| **Commercial Portfolio** | | | | | | | | |
| Mortgages | **77,675** | **62,061** | **113,432** | **4,099** | **244,620** | **13,816** | **17,363** | **-** |
| Term and revolving loans | **15,679** | **33,271** | **44,295** | **3,323** | **94,371** | **384** | **988** | **368** |
| Finance leases | **19,432** | **31,733** | **34,775** | **15,268** | **123,150** | **505** | **4,262** | **981** |
| **Total Gross Loans** | **$ 1,228,875** | **$ 1,710,257** | **$ 467,168** | **$ 158,623** | **$ 4,959,421** | **$ 217,436** | **$ 356,142** | **$ 2,684** |
| **Geographic %** | | | | | | | | |
| Retail | 14 | 20 | 3 | 2 | 54 | 2 | 4 | 1 |
| Commercial | 12 | 13 | 21 | 2 | 48 | 2 | 2 | - |

| | 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **BC** | **AB** | **SK** | **MB** | **ON** | **QC** | **ATL** | **Other** |
| **Retail Portfolio** | | | | | | | | |
| Residential mortgages | $ 941,055 | $ 1,632,112 | $ 254,719 | $ 131,505 | $ 4,135,483 | $ 9,389 | $ 331,260 | $ 1,157 |
| Consumer term loans | 43,837 | 78,769 | 22,173 | 16,309 | 178,212 | 146,032 | 40,620 | 1,164 |
| **Commercial Portfolio** | | | | | | | | |
| Mortgages | 135,412 | 82,736 | 86,707 | 13,214 | 207,191 | 17,116 | 20,652 | - |
| Term and revolving loans | 12,436 | 25,455 | 37,044 | 2,537 | 57,274 | 824 | 985 | 532 |
| Finance leases | 16,332 | 24,677 | 43,012 | 11,708 | 91,425 | 5,506 | 6,157 | 845 |
| **Total Gross Loans** | $ 1,149,072 | $ 1,843,749 | $ 443,655 | $ 175,273 | $ 4,669,585 | $ 178,867 | $ 399,674 | $ 3,698 |
| **Geographic %** | | | | | | | | |
| Retail | 12 | 21 | 3 | 2 | 54 | 2 | 5 | 1 |
| Commercial | 18 | 15 | 18 | 3 | 40 | 3 | 3 | - |

As a Schedule 1 chartered bank which operates on a national basis, Concentra's loan holdings are geographically diverse. The geographic concentration of Concentra's retail portfolio is fairly consistent with the population distribution across the country with the exception of Quebec. The geographic concentration of the commercial portfolio follows a similar distribution to the retail portfolio, with the exception of the higher concentration of loans within Saskatchewan.

## Credit Quality

Concentra's strategy is focused on the acquisition, funding and/or sale/syndication of loans that align with our underwriting criteria which is reflective of risk appetite and closely monitors its portfolios.

Underwriting guidelines and ongoing credit monitoring are generally completed at the macro level for the retail portfolio, focusing on indicators such as credit scores, geographic locations, and macro-economic factors. Underwriting guidelines and ongoing credit monitoring for the commercial portfolio are completed on a loan by loan basis and consideration is given to the relative financial health of the individual borrower, stability of cash flow, asset quality, and underlying collateral.

The COVID-19 pandemic continues to impact how the Bank manages its exposures to higher risk industry sectors such as hospitality, commercial real estate and construction. With this active management of credit exposure, the Bank expects that credit losses resulting from the economic conditions of the COVID-19 pandemic will not materially impact the Bank's strong capital position.

**Table 9: Loan Credit Quality and Allowance for Credit Losses**

| **As at December 31** | **Gross Loans** | | | **Allowance for Credit Losses** | | | **% of gross loans** | |
|---|---|---|---|---|---|---|---|---|
| (Thousands of Canadian Dollars) | **2021** | **2020** | **Change ($)** | **2021** | **2020** | **Change ($)** | **2021** | **2020** |
| **Retail Portfolio – Mortgages** | | | | | | | | |
| Low risk | **$ 4,735,830** | $ 5,578,756 | $ (842,926) | **$ (1,712)** | $ (2,489) | $ 777 | **0.04** | 0.04 |
| Standard monitoring | **2,721,184** | 1,820,960 | 900,224 | **(3,895)** | (2,253) | (1,642) | **0.14** | 0.12 |
| Special Monitoring | **19,637** | 32,155 | (12,518) | **(262)** | (276) | 14 | **1.33** | 0.86 |
| Default | **6,061** | 4,809 | 1,252 | **(1,313)** | (1,053) | (260) | **21.7** | 21.9 |
| **Retail Portfolio – Consumer & Credit Card Receivables** | | | | | | | | |
| Low risk | **-** | - | - | **(16)** | - | (16) | **0.00** | 0.00 |
| Standard monitoring | **656,900** | 524,482 | 132,418 | **(9,257)** | (7,490) | (1,767) | **1.41** | 1.43 |
| Special monitoring | **3,276** | 1,787 | 1,489 | **(545)** | (423) | (122) | **16.6** | 23.6 |
| Default | **1,867** | 847 | 1,020 | **(1,619)** | (736) | (882) | **86.7** | 86.9 |
| **Commercial Portfolio** | | | | | | | | |
| Low risk | **188,899** | 102,792 | 86,107 | **(188)** | (552) | 364 | **0.10** | 0.54 |
| Standard monitoring | **697,550** | 694,793 | 2,757 | **(4,019)** | (3,735) | (284) | **0.58** | 0.54 |
| Special monitoring | **60,903** | 66,922 | (6,019) | **(2,176)** | (5,472) | 3,296 | **3.57** | 8.18 |
| Default | **8,499** | 35,270 | (26,771) | **(2,042)** | (12,981) | 10,939 | **24.0** | 36.8 |
| **Totals** | **$ 9,100,606** | $ 8,863,573 | $ 237,033 | **$ (27,044)** | $ (37,460) | $ 10,416 | | |
| Allowance included in: | | | | | | | | |
| Loans receivable | | | | **$ (22,409)** | $ (34,732) | | | |
| Other liabilities | | | | **(777)** | (885) | | | |
| Accumulated other comprehensive income | | | | **(3,858)** | (1,843) | | | |

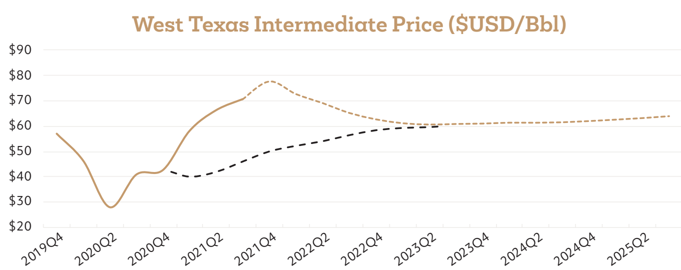
The Bank utilizes an ECL model to record loss allowances for its portfolios of on-balance sheet assets and certain off-balance sheet credit commitments. Loss allowances under the ECL model reflect the present value of all cash shortfalls related to default events which may occur over a specified period of time, with consideration given to past events, current conditions and reasonable and supportable forward-looking 12-month information. The ECL model also incorporates a "staging" concept whereby the loss allowance is equal to either the 12 month or lifetime ECLs based on the relative change in credit quality of the financial instrument since inception.

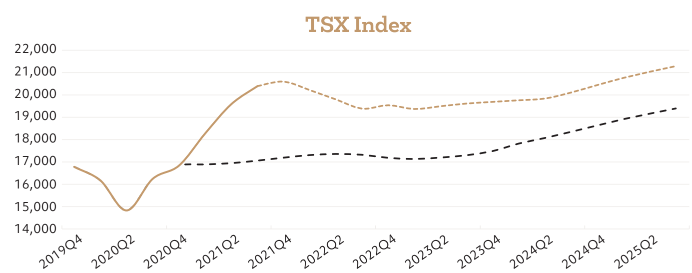
In 2021, ECL allowances decreased overall by $10.4 million, primarily driven by a significant decrease in commercial allowances for defaulted accounts. During 2021, a number of commercial accounts that were previously in default in 2020 were settled and written off or paid off in full, resulting in the allowances assigned against those accounts released during 2021. The Bank has continued to manage its credit risk by reducing exposures to high-risk industry sectors in the commercial portfolio.

Changes in the ECL allowances are a function of changes in both the probability of default and the expected loss given defaults of loans, which can change due to either a change in the economic outlook or the current credit quality of a borrower. The Bank utilizes a combination of several macroeconomic indicators to evaluate overall economic conditions for provisioning, including unemployment rates, house price indexes, oil prices and stock market indexes. During 2021, probabilities of default and loss given default rates decreased due to more optimistic macroeconomic outlooks compared to 2020, impacting the Bank's allowance for the various portfolios. However this was offset by overall growth in the balance sheet for uninsured residential mortgages, credit card receivables, and consumer loans, as Stage 1 allowances are recorded upon funding of new volumes. The Bank also implemented a new borrower risk rating and facility risk rating system for the commercial portfolio, which required implementing new probabilities of default and loss given default parameters. This resulted in a $2.3 million reduction of Stage 1 and 2 ECL allowances due to the change in model.

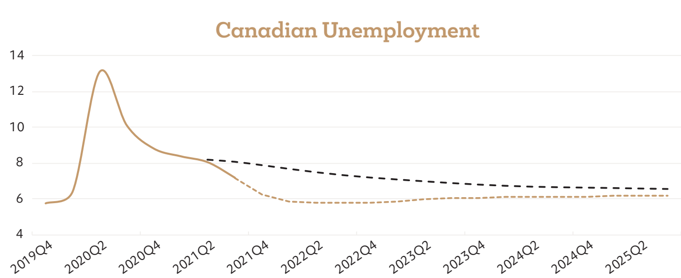
The Bank relies on forward-looking macroeconomic factors, such as the Canadian equity index, unemployment rates, house price index and oil prices in measuring ECLs. These macroeconomic factors are considered key drivers of credit risk for the Bank's various loan portfolios and the Bank has estimated relationships between macroeconomic variables, credit risk and credit losses. The estimation and application of forward-looking information requires significant judgement.

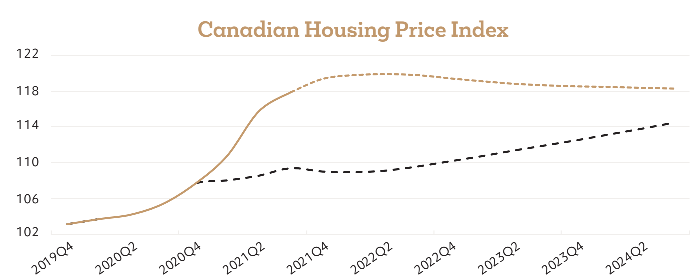
The Bank uses forecasts generated by an external vendor that specializes in economic forecasting in both the Canadian and global markets. The external vendor provides multiple forecasted scenarios which are then assessed and probability-weighted by the Bank using judgement. In the selection of scenarios used for modelling ECLs, the Bank considered numerous factors including the significant uncertainty COVID-19 has had to current economic conditions. Management compares the external vendor's forecasts to other sources of economic forecasts and considers the external vendor's assumptions to be generally aligned with the market consensus at this time. A comparison of the change in the Bank's key macroeconomic variables used in ECLs is shown below, comparing the base outlook at the end of 2020 with the 2021 base outlook, as well as the 2021 historical actual results:




--- 2020 Base Forecast — Actual Results ----- 2021 Base Forecast



The Bank considers the total ECL allowances to be a reasonable estimate of future credit losses in the context of current economic conditions and a high level of uncertainty in economic outlook at the end of 2021. The Bank's estimates of ECLs require significant judgement and actual losses may differ materially if certain assumptions regarding the economic outlook do not materialize as forecasted.

### Liquidity Management

As a federally regulated financial institution, the Bank monitors its liquidity position on a daily basis with reference to the Liquidity Adequacy Requirements ("LAR") Guideline prescribed by OSFI. To ensure ongoing compliance with the LAR Guideline, the Bank maintains a portfolio of high quality debt securities which qualify as liquid assets for regulatory purposes. These instruments consist primarily of federal government and government guaranteed securities, as well as some highly rated provincial and corporate bonds. In addition to its securities portfolio, the Bank also holds a certain amount of its own NHA MBS certificates for liquidity purposes. The securitization of residential mortgages into NHA MBS represents a key component of the Bank's liquidity management strategy, providing Concentra with the ability to quickly access liquidity by converting illiquid insured residential mortgages into government guaranteed securities.

In addition to the qualifying securities held for regulatory purposes, the Bank also holds a portfolio of short to medium-term securities which it uses to earn a yield on temporary inflows of excess liquidity. The majority of these securities consist of short-term paper backed by specifically pledged assets and bank notes, neither of which qualify as liquid assets under the LAR Guideline. Although these bank notes and short-term asset backed paper do not qualify as liquid assets for regulatory purposes, given their short-term nature they generally qualify as cash inflows thereby positively affecting the Liquidity Coverage Ratio (LCR). Additionally, given the high credit quality of the underlying issuers, the Bank still considers the medium to long term securities within this portfolio to be liquid for its own purposes as the securities held are actively traded in market.

**Table 10: Liquid Assets and Securities**

| **As at December 31** | | | **Change** | |
|---|---|---|---|---|
| (Thousands of Canadian Dollars) | **2021** | **2020** | **$** | **%** |
| **Qualifying Securities for Regulatory Purposes** | | | | |
| Government – federal | **$ 75,362** | $ 72,298 | 3,064 | 4 |
| Government – federal guaranteed | **933,181** | 232,655 | 700,526 | 301 |
| Government – provincial | **143,864** | 263,914 | (120,050) | (45) |
| Corporate – non-financial institutions | **63,395** | 149,495 | (86,100) | (58) |
| **Total Qualifying Securities** | **1,215,802** | 718,362 | 497,440 | 69 |
| Cash | **196,732** | 763,710 | (566,978) | (74) |
| Residential mortgages held as NHA MBS(1) | **450,214** | 819,222 | (369,008) | (45) |
| **Total Liquid Assets for Regulatory Purposes(2)** | **$ 1,862,748** | $ 2,301,294 | (438,546) | (19) |
| **Non-Qualifying Liquid Securities** | | | | |
| Corporate – chartered bank | **$41,837** | $71,854 | (30,017) | (42) |
| Corporate – non-financial institutions | **11,823** | - | 11,823 | 100 |
| Asset-backed | **11,633** | 141,857 | (130,224) | (92) |
| **Total Non-Qualifying Liquid Securities** | **65,293** | 213,711 | (148,418) | (69) |
| **Total Liquid Assets** | **$ 1,928,041** | $ 2,515,005 | (586,964) | (23) |
| % of total assets | **18** | 23 | | |
| % of total deposits | **29** | 40 | | |

(1) Represents residential mortgages the Bank has securitized into NHA MBS certificates which it continues to hold as part of its liquidity management strategy. These balances are included in residential mortgages in the consolidated balance.

(2) Represents the carrying value of qualifying liquid assets before regulatory adjustments in accordance with OSFI's LAR guideline.

The amount of liquid assets held for regulatory purposes is influenced by a number of factors, including the Bank's forecasted cash inflows and outflows. The decrease in liquid assets compared to the prior year is primarily due to an increase in the Bank's loans portfolio during 2021.

### Deposits

Retail deposits consist of guaranteed investment certificates ("GICs"), online savings deposits and registered plan deposits which are primarily sourced through third party relationships. These third party relationships provide Concentra with a stable and consistent source of funds for its balance sheet, with the majority of the funding over the past two years being represented by non-cashable GICs. A large portion of these deposits are scheduled to rollover on a laddered maturity, providing further stability to Concentra's funding structure.

The Bank also saw the launch of its new retail platform in Q4 2021, which allows retail customers to open a deposit account with Wyth Financial directly, and to use the mobile app or website portal to manage their account. We are expecting growth in this retail deposit channel in 2022 as we build our direct retail customer base.

The Bank also saw online savings account balances increase through its partnership with a Fintech that offers high interest savings accounts. We expect to see further growth in 2022 of these deposit balances.

Credit union deposits primarily consist of excess operating cash within the credit union system, which is held in non-statutory overnight accounts or invested in short to medium-term deposits. Given that these deposits are primarily sourced through the credit union's excess liquidity, the balances are subject to certain seasonal fluctuations. In particular, the agricultural cycle causes significant changes in the cash position of the prairie credit unions, typically resulting in large inflows to the overnight accounts in the fall to correspond with harvest followed by a large outflow in the spring to correspond with seeding. As these fluctuations are predictable from year to year, there is an observable core within the credit union accounts which Concentra can rely upon throughout the year. In addition, Concentra has demonstrated the ability to raise significant funds nationally through special rate offerings used periodically throughout the year, providing the Bank with additional flexibility for managing its liquidity and short-term cash needs.

Capital markets deposits consist of deposit notes issued to institutional investors. The deposits are a strategic product to diversify the Bank's deposit sources, while gaining increased capital market exposure. The Bank completed a $250 million fixed rate capital note issuance on May 17, 2021, which was well received in the market.

Commercial deposits have been a growing area of interest in support of our strategy to support commercial businesses. We are getting traction with this important client segment, and will continue to support our commercial clients.

**Table 11: Deposits**

| As at December 31<br>(Thousands of Canadian Dollars) | 2021 | 2020 | Change $ | % |
|---|---|---|---|---|
| **Notice/Demand Deposits** | | | | |
| Credit union overnight accounts | **$ 520,285** | $ 656,208 | (135,923) | (21) |
| Credit union redeemable terms | **50,016** | 35,598 | 14,418 | 41 |
| Retail cashable GICs | **39,191** | 32,154 | 7,037 | 22 |
| Retail registered plans | **108,767** | 103,070 | 5,697 | 6 |
| Retail online savings | **104,536** | 4,164 | 100,372 | 2,410 |
| Commercial chequing accounts | **222,249** | 192,600 | 29,649 | 15 |
| | **1,045,044** | 1,023,794 | 21,250 | 2 |
| **Term Deposits** | | | | |
| Credit union non-redeemable terms | **2,287,034** | 2,200,958 | 86,076 | 4 |
| Retail non-redeemable GICs | **2,264,928** | 2,527,902 | (262,974) | (10) |
| Retail online GICs | **36,074** | 19,858 | 16,216 | 82 |
| Retail registered plans | **162,999** | 171,194 | (8,195) | (5) |
| Commercial non-redeemable terms | **449,346** | 190,476 | 258,870 | 136 |
| Capital markets floating rate notes | **450,217** | 199,998 | 250,219 | 125 |
| | **5,650,598** | 5,310,386 | 340,212 | 6 |
| **Total Deposits** | **$ 6,695,642** | $ 6,334,180 | 361,462 | 6 |
| **Deposits by Source:** | | | | |
| Credit union | **$ 2,857,335** | $ 2,892,764 | (35,429) | (1) |
| Retail | **2,716,495** | 2,858,342 | (141,847) | (5) |
| Commercial | **671,595** | 383,076 | 288,519 | 75 |
| Capital Markets | **450,217** | 199,998 | 250,219 | 125 |

Deposits increased 6% to $6.7 billion by the end of 2021. This increase in deposits was driven by an increase in commercial and capital market deposits. The Bank manages liquidity through strategic pricing of deposit products in order to align funding sources to forecasted loan originations.

## Short-Term Funding

The Bank maintains multiple revolving credit facilities and other short-term funding programs including a bearer deposit note program, Bank of Canada facilities and securities sale and repurchase agreements to support day-to-day liquidity and cash management. The Bank's short-term funding is classified as loans and notes payable in the consolidated balance sheet with a total outstanding balance of $164.3 million at year-end (2020 - $214.8 million).

**Table 12: Short-Term Funding Programs**

| **As at December 31**<br>(Thousands of Canadian Dollars) | **2021**<br>**Authorized** | **Drawn/ Encumbered** | **Available** | **2020**<br>**Authorized** | **Drawn/ Encumbered** | **Available** |
|---|---|---|---|---|---|---|
| **Revolving Credit Facilities** | | | | | | |
| Secured line of credit | $ 400,000 | $ 22,000[1] | $ 378,000 | $ 400,000 | $ 50,000[1] | $ 350,000 |
| SaskCentral line of credit | 100,000 | - | 100,000 | 100,000 | - | 100,000 |
| | 500,000 | 22,000 | 478,000 | 500,000 | 50,000 | 450,000 |
| **Other Short-Term Funding Programs** | | | | | | |
| Bank of Canada facilities | - | - | - | - | - | - |
| Bearer deposit notes | 500,000[2] | 164,259 | 335,741 | 500,000[2] | 214,480 | 285,520 |
| Securities sale and repurchase agreements | 1,150,000[2] | - | 1,150,000 | 1,150,000[2] | - | 1,150,000 |
| | 1,650,000 | 164,259 | 1,485,741 | 1,650,000 | 214,480 | 1,435,520 |
| **Total Short-Term Funding Programs** | $2,150,000 | $ 186,259 | $1,963,741 | $2,150,000 | $ 264,480 | $1,885,520 |

(1) Represents the authorized portion of the secured line of credit used to backstop the Bank's commercial letter of credit facilities. There was no outstanding balance on the secured line of credit at year-end in 2021 or 2020.

(2) Internal policy utilization limit rather than external authorized limit.

The Bank does not currently maintain any long-term debt or other similar funding facilities.

## Securitizations

**Table 13: Securitization Liabilities**

| **As at December 31**<br>(Thousands of Canadian Dollars) | **2021** | **2020** | **Change**<br>**$** | **%** |
|---|---|---|---|---|
| **Obligations Under the CMB Program** | | | | |
| Quarterly CMB issuances subject to a total return swap | $ 297,133 | $ 998,461 | (701,328) | (70) |
| | 297,133 | 998,461 | (701,328) | (70) |
| **Obligations Under the NHA MBS Program** | | | | |
| Quarterly CMB issuances not subject to a total return swap | 1,372,359 | 1,133,368 | 238,992 | 21 |
| NHA MBS market pools | 1,748,739 | 1,726,445 | 22,294 | 1 |
| | 3,121,098 | 2,859,813 | 261,286 | 9 |
| **Obligations to Multi-Seller Conduits** | 21,478 | 63,409 | (41,931) | (66) |
| **Total Securitization Liabilities** | $ 3,439,709 | $ 3,921,683 | (481,973) | (12) |

As an active participant in the NHA MBS and CMB securitization programs, securitization liabilities provide Concentra with additional funding diversification and have historically allowed the Bank to originate high volumes of insured residential mortgages at a lower cost of funds than retail deposits. With the exception of certain NHA MBS created from pools of multi-family or social housing mortgages, the creation and sale of NHA MBS certificates does not qualify for derecognition under IFRS and consequently the funding received through these sales is recognized as a securitization liability in the consolidated balance sheet. Obligations presented under the CMB program require lump sum payouts at the end of term, while obligations presented under the NHA MBS program are amortizing liabilities that pay down as principal payments are received on the underlying mortgages and flowed through to the investors.

## Off-Balance Sheet - Commitments and Letters of Credit

The Bank provides commitments to extend credit to borrowers. The Bank had outstanding commitments to fund $844 million of loans in the ordinary course of business at December 31, 2021 (December 31, 2020 – $876 million). The Bank also issues letters of credit which represent assurances that it will make payments in the event that a borrower cannot meet their obligations to a third party. Letters of credit in the amount of $36.7 million were outstanding at December 31, 2021 (December 31, 2020 – $35.4 million), none of which had been drawn.

**Table 14: Commitments and Letters of Credit**

| **As at December 31** | | | **Change** | |
|---|---|---|---|---|
| (Thousands of Canadian Dollars) | **2021** | **2020** | **$** | **%** |
| **Credit Commitments** | | | | |
| Loans at amortized cost | **$ 775,660** | $ 821,297 | (45,637) | (6) |
| Loans at FVTPL | **68,000** | 54,918 | 13,082 | 24 |
| | **843,660** | 876,215 | (32,555) | (4) |
| **Letters of Credit** | **36,637** | 35,420 | 1,217 | 3 |
| **Uncalled capital commitments for investments** | **39,916** | 22,485 | 17,431 | 78 |
| **Total Commitments** | **$ 920,213** | $ 934,120 | (13,907) | (1) |

## Off-Balance Sheet - Assets under Administration

Assets under administration consists of: (1) assets over which the Bank has been named as trustee, custodian or other similar role; and (2) loans held by third parties which the Bank is responsible for servicing. The Bank will typically be entitled to a fee for the services it provides and consequently assets under administration growth is a key driver of the Bank's fee-for-service income. As these assets are held solely for the benefit of the client and the Bank's rights are limited to its fee entitlement, assets under administration are not recorded in the Bank's consolidated balance sheet. The major classes of assets under administration and the fees they generate are as follows:

- **Securitizations**: residential mortgages securitized through the NHA MBS program which qualify for derecognition due to the specific asset characteristics or unique structure of the transaction. The Bank is responsible for servicing the assets post-securitization, but receives no trailing fee as servicing is compensated through the excess spread the Bank has retained on-balance sheet.
- **Retail**: pools of residential mortgages or consumer loans held by credit unions for which the Bank acts as servicer. The Bank receives an ongoing fee for the services provided based on the outstanding principal of the loans administered.
- **Commercial**: commercial mortgages, loans and leases owned, in whole or in part, by credit unions for which the Bank acts as servicer. The Bank receives an ongoing fee for the services provided based on the outstanding principal of the loans administered.
- **Registered plans**: assets held within a registered plan established by a credit union or commercial client over which the Bank has been named as trustee and, in certain cases, administrator. Depending on the agreement in place, the Bank receives an ongoing fee based on the value of the assets and/or the number of individuals enrolled within the registered plan. When credit unions are named as the administrator of these registered plans, they hold the deposits on their own balance sheets allowing the funding to remain within the credit union system.
- **Escrows, custodianships and corporate trusts**: assets held within a variety of corporate trust structures for which the Bank has been named as trustee, as well as assets in escrow or custody accounts. The Bank receives an ongoing fee based on the value of the assets.
- **Estates, personal trusts and agencies**: assets held within personal estates for which the Bank is acting as executor/ administrator, assets held in a variety of personal trust structures for which the Bank has been named as trustee and

other similar arrangements for individuals where the Bank has been retained as an agent by a third party executor/ trustee. The Bank receives a fee based on the value of the assets within the estate or personal trust structure which may be collected throughout the term of the services provided.

**Table 15: Assets Under Administration**

| As at December 31<br>(Thousands of Canadian Dollars) | 2021 | 2020 | Change $ | Change % |
|---|---|---|---|---|
| Commercial and Retail Banking | | | | |
| Securitizations | **$ 2,948,946** | $ 2,806,983 | 141,963 | 5 |
| Retail | **133,617** | 147,470 | (13,853) | (9) |
| Commercial | **795,268** | 888,002 | (92,734) | (10) |
| | **3,877,831** | 3,842,455 | 35,376 | 1 |
| Trust | | | | |
| Registered plans | **30,945,274** | 38,274,905 | (7,329,631) | (19) |
| Escrows, custodianships and corporate trusts | **1,072,156** | 1,147,904 | (75,748) | (7) |
| Estates, personal trusts and agencies | **174,748** | 146,096 | 28,652 | 20 |
| | **32,192,178** | 39,568,905 | (7,376,727) | (19) |
| Total Assets Under Administration | **$ 36,070,009** | $ 43,411,360 | (7,341,351) | (17) |

Assets under administration decreased 17% ending the year with a total balance of $36.1 billion. The decrease was driven by a reduction in administered registered plan accounts.

## Capital Management

Capital is a key factor in the stability of a financial institution. A strong capital position assists the Bank in promoting confidence among depositors, creditors, counterparties, regulators and shareholders. The Bank manages capital levels in accordance with policies as reviewed and approved annually by the Board, taking into account actual and forecasted capital needs. The Bank's goal is to be well capitalized, protect customer deposits, and provide capacity for internal growth and strategic opportunities, all while providing a satisfactory return for shareholders. Management reviews compliance with the policy at minimum on a monthly basis, while the Risk Committee and the Board review compliance with the policy on a quarterly basis.

Regulatory capital and capital ratios are calculated, reported, and managed in accordance with the requirements of the OSFI Capital Adequacy Requirements Guideline. OSFI requires federally regulated deposit taking institutions to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets, including off-balance sheet commitments.

Throughout 2021 and 2020, the Bank has been in compliance with OSFI prescribed capital adequacy requirements.

Under Basel III, the Bank calculates risk-weighted assets for credit risk using the Standardized Approach and for operational risk using the Basic Indicator Approach. The Bank's capital structure and regulatory ratios reported on the 'all in basis' were as follows:

**Table 16: Regulatory Capital and Ratios**
**As at December 31**

| (Thousands of Canadian Dollars) | | 2021 | 2020 |
|---|---|---|---|
| **Common Equity Tier 1 Capital** | | | |
| Common shares | | $ **134,252** | $ 134,252 |
| Retained earnings | | **301,661** | 268,322 |
| Accumulated other comprehensive income | | **(1,251)** | 13,554 |
| Regulatory adjustments | | **(26,474)** | (22,713) |
| **Total Common Equity Tier 1 Capital** | | **408,188** | 393,415 |
| **Additional Tier 1 Capital** | | | |
| Non-cumulative preferred shares | | **110,987** | 110,987 |
| **Total Tier 1 Capital** | | **519,175** | 504,404 |
| **Tier 2 Capital** | | | |
| General allowances | | **17,949** | 18,810 |
| **Total Regulatory Capital** | | **537,124** | 523,214 |
| **Total Risk Weighted Assets** | | $ **3,278,781** | $ 3,089,753 |
| **Capital Ratios** | **OSFI Limit** | | |
| Common Equity Tier 1 capital to risk-weighted assets | **7.0%** | **12.5%** | 12.7% |
| Tier 1 capital to risk weighted assets | **8.5%** | **15.8%** | 16.3% |
| Total capital to risk weighted assets | **10.5%** | **16.4%** | 16.9% |
| **Leverage Ratio[1]** | **3.0%** | **4.6%** | 4.4% |

[1] The OSFI limit for the leverage ratio is presented in accordance with OSFI's Leverage Requirements Guideline which states that all institutions must maintain a leverage ratio that exceeds 3.0%. However, OSFI also provides each institution with an authorized leverage ratio which may differ from this amount. The authorized limit is considered supervisory information and is therefore not permitted to be disclosed.

The Bank's capital ratios remain strong overall in 2021. The decrease in capital ratios was a result of the Bank's risk-weighted assets ("RWA") increasing at a greater rate than capital. The following table summarizes the Bank's RWA calculation:

**Table 17: Risk-Weighted Assets**
**As at December 31**

| (Thousands of Canadian Dollars) | 2021 Net Exposure | 2021 Effective Risk % | 2021 Risk-Weighted Amount | 2020 Net Exposure | 2020 Effective Risk % | 2020 Risk-Weighted Amount |
|---|---|---|---|---|---|---|
| Cash | **$ 196,732** | **20** | **$ 39,346** | $ 763,710 | 20 | $ 152,742 |
| Securities | **1,474,253** | **10** | **151,748** | 1,294,261 | 16 | 210,518 |
| Retail Portfolio | | | | | | |
| Residential mortgages – insured | **4,186,213** | **2** | **79,568** | 4,995,269 | 2 | 95,690 |
| Residential mortgages – uninsured | **3,293,231** | **35** | **1,156,507** | 2,437,270 | 35 | 848,245 |
| Term loans and credit cards – unsecured | **650,835** | **76** | **495,382** | 518,635 | 76 | 394,813 |
| Commercial Portfolio | | | | | | |
| Mortgages | **526,919** | **82** | **434,596** | 542,226 | 97 | 527,090 |
| Term and revolving loans | **192,541** | **60** | **116,394** | 136,839 | 87 | 118,737 |
| Finance leases | **228,458** | **77** | **176,686** | 198,602 | 77 | 153,260 |
| Other Assets | **157,691** | **95** | **149,747** | 177,099 | 94 | 166,106 |
| **Total Assets** | **10,906,873** | | **2,799,974** | 11,063,911 | | 2,667,201 |
| **Off-Balance Sheet Items** | | | | | | |
| Credit commitments | **920,213** | **26** | **240,770** | 934,120 | 22 | 203,684 |
| **Total Credit Risk** | **11,827,086** | | **3,040,744** | 11,998,031 | | 2,870,885 |
| **Operational Risk** | **-** | | **238,037** | - | | 218,868 |
| **Total Risk-Weighted Assets** | **$ 11,827,086** | | **$ 3,278,781** | $ 11,998,031 | | $ 3,089,753 |

The Bank uses the standardized approach for calculating risk-weighted assets by applying the OSFI-prescribed risk weight percentages to its on-balance sheet and off-balance sheet exposures. The year-over-year increase in RWA is primarily a result of the growth in uninsured residential mortgages, term loans and credit card receivables, offset by decreases in cash securities and the commercial portfolio.

## RISK MANAGEMENT OVERVIEW

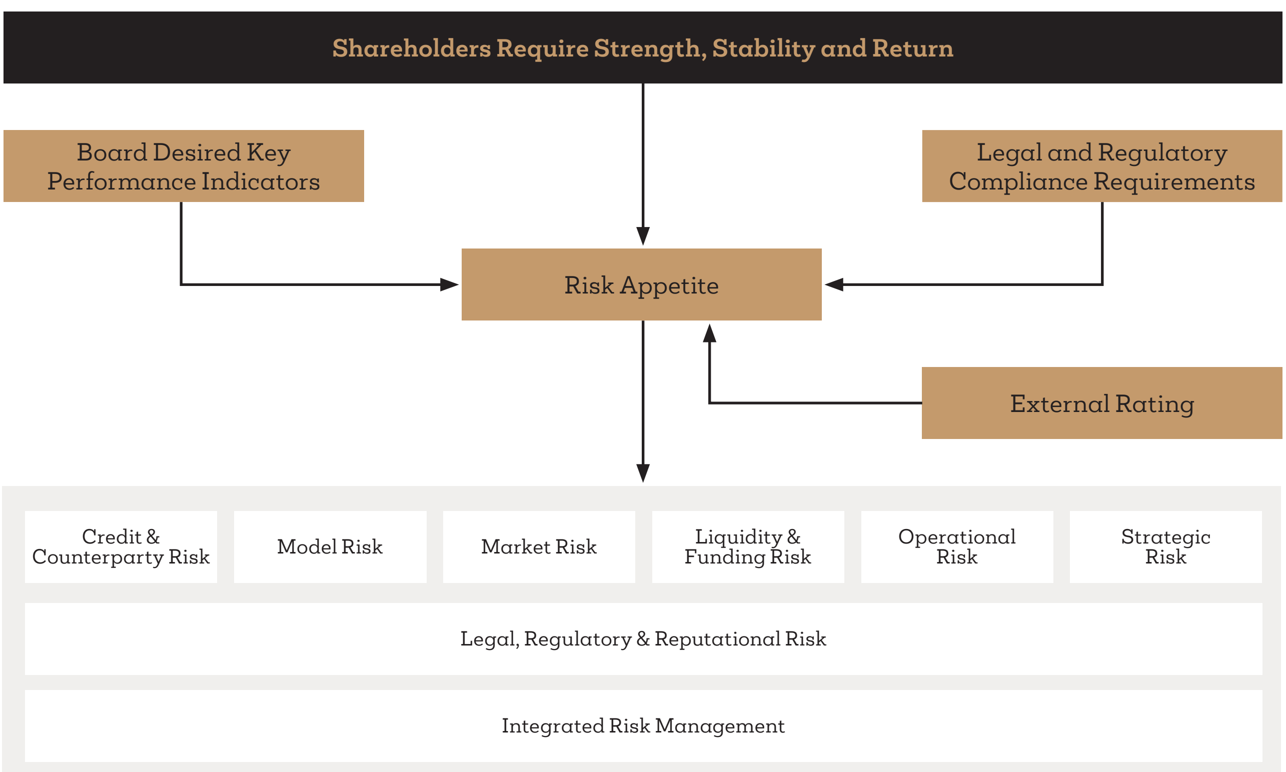
An important component of our risk management approach is to ensure that top and emerging risks, as they evolve, are identified, managed and incorporated into our existing risk management assessment, measurement, monitoring and escalation processes. Our management of the risks associated with the impact of the COVID-19 pandemic is outlined in the Significant Developments: COVID-19 section.

Concentra has a prudent risk management culture that enables us to align our strategy and business model. Our Risk Governance Framework provides the overarching guidance for the risk frameworks, policies and programs at the Bank and allows effective management of enterprise-wide risks by:

- Providing a means by which the Board and management establish and reinforce the Bank's risk culture
- Articulating and monitoring adherence to risk appetite through the Risk Appetite Framework
- Establishing a risk management system with the three lines of defense to identify, measure, monitor and mitigate risks
- Establishing a formal hierarchy of risk governance and oversight committees to provide a structured and disciplined approach to risk management and informed decision making
- Establishing risk management policies and management guidelines, governed by the Corporate Policy Framework

The Board of Directors approves the Risk Governance Framework, Risk Appetite Framework, Corporate Policy Framework and Regulatory Compliance Management Framework.

The Risk Governance Framework reflects the Bank's approach to risk governance through integrated risk management:



## Risk Culture

Accountability lies at the core of Concentra's risk culture.

Business decision makers have primary accountability for risk, while the Risk Management Group is primarily responsible for providing an enterprise-wide view of risk-taking activities by:

- Monitoring adherence to the Board's overall risk appetite and limit structure
- Ensuring appropriate focus on the identification of new and emerging risks
- Assuring effective and consistent application of risk management practices by formulating policies and procedures, monitoring risk exposures, and challenging key business proposals

Our approach is designed to ensure we only take as much risk as warranted by our business model, strategies, and policies, and that risk levels and types are transparent throughout the Bank. Business-line managers closest to the customer are risk owners, while the Risk Management Group provides independent oversight and challenge of control effectiveness. We leverage strong talent on the front line, in corporate functions, and in internal audit to ensure effective risk management.

To provide the foundation for risk culture, the Board establishes tone at the top by promoting risk awareness, conveying expectations that it does not support excess risk taking, and promoting a culture where employees are individually and collectively responsible for risk management.

The following risk principles guide employees in the corporate-wide management of risk:

- Integrate risk into decisions
- Use common sense and business judgement
- Actively communicate and manage risk
- Know lines of defense roles
- Know Concentra clients and business partners
- Balance risk and reward
- Clearly understand risks
- Protect the Concentra reputation and brand

Senior management implements and reinforces a sound risk culture and ensures any risks exceeding risk appetite are recognized, escalated and addressed in a timely manner. In addition, senior management ensures that employees are provided with incentives that reward appropriate behavior and address inappropriate actions.

## Risk Appetite

Concentra's risk appetite encompasses our capacity for risk, which enables us to balance our risk tolerances with return expectations.

Risk appetite is defined as a comprehensive expression of the types and size of risks to which the Bank wishes to be exposed or not to be exposed, given its strategy and business model. Our risk appetite is set based on an understanding of the Bank's overall capacity to bear risk. Risk capacity represents the maximum risk the Bank can bear relative to its financial capital position, regulatory requirements, debt capacity, strength of core earnings, resilience of brand and reputation. We also consider various stakeholder expectations including management, regulators, rating agencies and shareholders with varying perspectives on risk appetite. As such, our risk appetite combines short-term management and earnings perspectives with longer-term solvency and rating views.

We assess our risk appetite in terms of suitability and tolerance. Suitability of risk is the level and type of risks the Bank is willing to assume in order to meet profitability and growth objectives. Tolerance for risk is how much risk the Bank is willing to take expressed in terms of earnings and capital capacity. Risk appetite is embedded in core strategic planning, execution and review processes; where suitability and tolerance are explicitly stated, executed and reported against the capacity to bear risk.

The Concentra Risk Appetite Framework provides the basis for the development of risk management policies and processes that establish and monitor adherence to the approved risk appetite. This framework also establishes the requirement to align risk-taking with the Bank's vision, strategy, risk philosophy and risk capacity. Delegation of authority and adherence to risk tolerances in day-to-day operations provides the basis for understanding and managing the risk profile of the Bank.

## Three Lines of Defense

Concentra has adopted the Three Lines of Defense model to help provide a consistent, transparent and clearly documented allocation of accountability and segregation of functional responsibilities.

Our organizational structure continues to evolve and align to the Three Lines of Defense, improving the management of risk throughout the business operations of the Bank.

| Business Operations | Risk Management Group | Internal Audit |
|---|---|---|
| **First Line of Defense** (risk takers) | **Second Line of Defense** (policy and risk methodology development, measurement, aggregation, monitoring and reporting) | **Third Line of Defense** (independent assurance) |
| • Owns and manages risk in day-to-day business operations.<br>• Optimizes risk/return trade-off within risk appetite.<br>• Embeds a risk aware culture within each business unit.<br>• Operates within risk limits, tolerances, policies and legislative and regulatory requirements. | • Develops and maintains the Risk Governance Framework, Risk Appetite Framework, Corporate Policy Framework and risk management policies.<br>• Supports a risk aware culture.<br>• Provides independent oversight of the First Line of Defense, including independent effective challenge.<br>• Defines risk measurement methodology and develops risk models and tools.<br>• Independently identifies, measures, monitors and objectively reports on the Bank's risk profile.<br>• Provides advice on risk mitigation, risk appetite and risk assessment and quantification approaches. | • Provides independent assurance as to the effectiveness of the Risk Governance Framework and the effectiveness of the First and Second Lines of Defense.<br>• Independently reviews adherence to controls, policies and regulatory requirements.<br>• Identifies operational weaknesses and recommends and tracks remediation actions. |

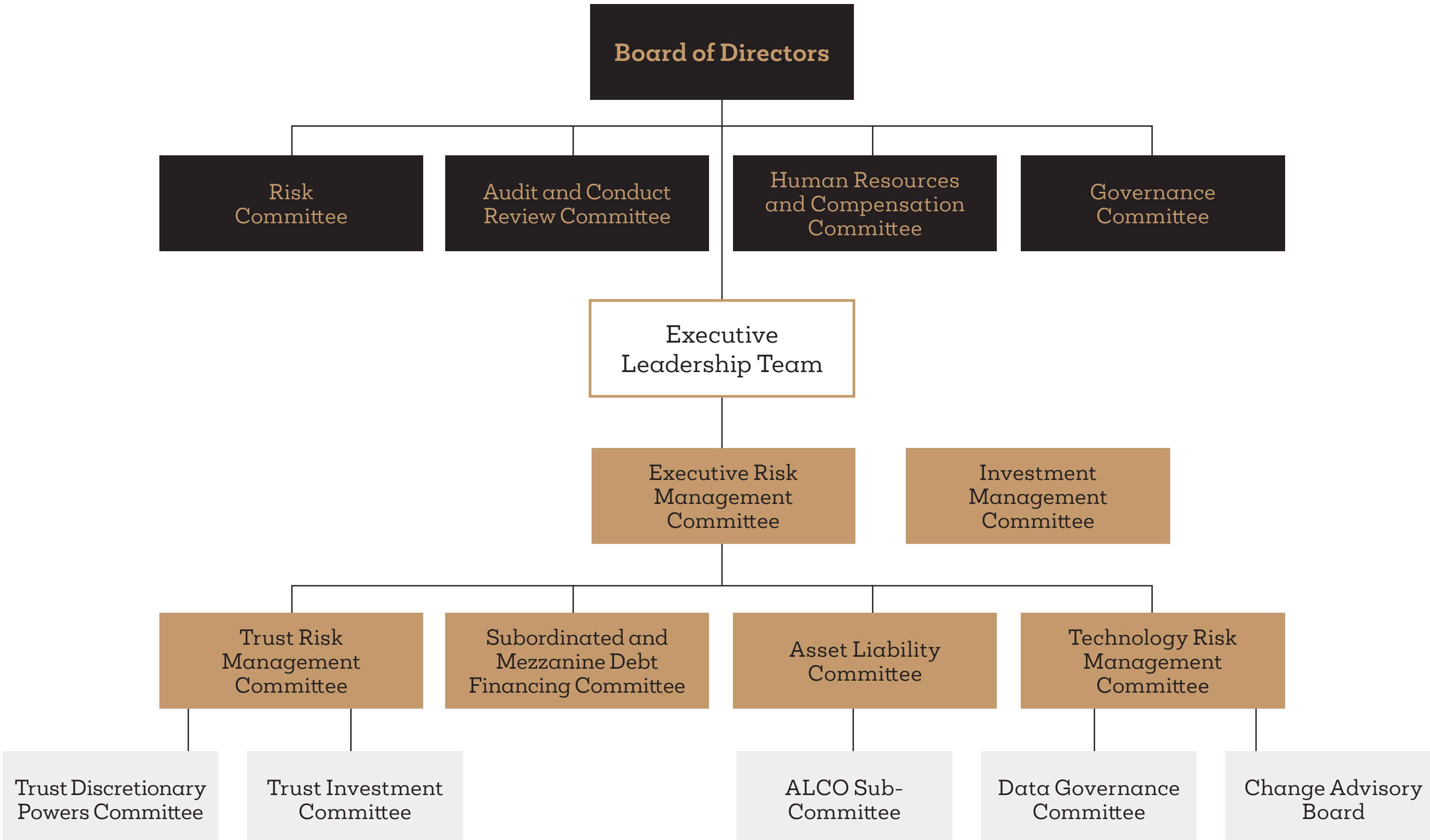
## Chief Risk Officer and Risk Management Group Mandates

The Chief Risk Officer (CRO) reports functionally to the Board of Directors, through the Risk Committee, and directly to the President and Chief Executive Officer. The CRO is accountable for overall risk and compliance strategies, policies and processes of the Bank. The CRO establishes appropriate risk governance, oversight and controls for the Bank through a formal management risk committee structure, which ensures that there is a structured, disciplined process for decision making necessary to achieve the Bank's strategic and financial objectives.

Under the leadership of the CRO within the second line of defense, the Risk Management Group is an independent and enterprise-wide function that is accountable for oversight and effective challenge of all significant and material risks faced by the Bank. The Risk Management Group reinforces enterprise-wide risk culture; establishes risk frameworks, risk appetite and policies, and sets standards that address significant risk across the Bank; provides independent oversight to the effectiveness of the Bank's risk and compliance processes; and reports on the enterprise risk profile independently of business segments.

## Risk Management Committee Structure

A fundamental component of our Risk Governance Framework is the robust risk management committee structure.



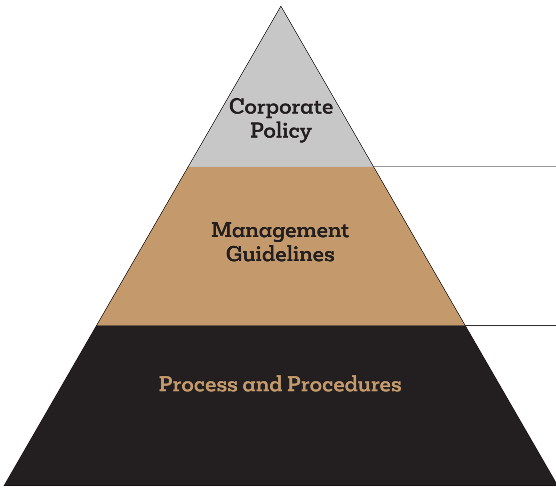
The following chart outlines the key accountabilities of the risk management committees.

| | |
|---|---|
| **Executive Risk Management Committee (ERMC)** | As the Bank's senior risk committee, reviews the comprehensive assessment of current and emerging risks, individually and in aggregate and promotes an integrated and effective risk culture. The ERMC also assesses risk based capital requirements in light of the risks the Bank takes within its stated Risk Appetite and limits as set by Senior Management and the Board of Directors. |
| **Investment Management Committee (IMC)** | Oversees the management of the investment portfolio and reviews and approves new business opportunities of economic substance. The IMC is accountable to approve the purchase and disposal of significant non-liquidity investments and to monitor their performance. |
| **Asset Liability Committee (ALCO)** | Oversees the management of the Bank's non-trading market risk and each of its consolidated liquidity, funding and capital positions. The ALCO also reviews the short-term and long-term financial plan and reviews progress against the plan and forecasted results at least quarterly. In addition, the ALCO acts as a Liquidity Committee within the Contingency Funding Plan and Capital Committee within the Capital Recovery Plan. |
| **Technology Risk Management Committee (TRMC)** | Ensures effective enterprise-level governance and controls are in place for managing information technology (IT) and business continuity risk for the Bank. The TRMC provides oversight to the Bank's IT risk profile, related processes and assessments, policies and standards, emerging IT risks and business continuity program. |
| **Trust Discretionary Powers Committee** | Manages fiduciary risk exposures including overseeing situations where Concentra Trust is required to exercise its discretion in matters pertaining to the management and administration of an estate, trust or agency account. |
| **Trust Investment Committee** | Manages fiduciary risk exposure by providing investment management oversight of accounts over which Concentra Trust is appointed as a fiduciary. |
| **ALCO Sub-Committee (ASC)** | Oversees the management of structural market risk, funding and liquidity, and available capital positions. The ASC reports regularly to the ALCO on the Bank's risk profile in alignment with its accountabilities and responsibilities, and escalates key risk issues as appropriate. |
| **Data Governance Committee (DGC)** | Works across existing functional teams to effectively inventory, prioritize and solve for data issues at the Bank, for the purposes of improving data quality. The DGC takes direction from the TRMC and reports monthly to the TRMC on its proceedings. |
| **Change Advisory Board** | Manages the software development lifecycle across functional teams to facilitate improvements to the service delivery model. |

## Corporate Policy Framework

The management of risks across the material risk categories is done through the establishment of risk management policies and management guidelines, governed by the Corporate Policy Framework. The Corporate Policy Framework sets out the principles and authorities on Corporate Policy, the hierarchy of governing documents and the governance requirements for monitoring, measuring and reporting on compliance with Corporate Policy.

Risk management is integrated into the decision-making process through business unit level processes and procedures, designed to provide internal controls to support Corporate Policy and Management Guidelines.




| | |
|---|---|
| **Board Approved** | • The Board of Directors review, approve and oversee the Corporate Policy. |
| **ERMC Approved** | • The Corporate Policy is supported by Management Guidelines, approved by the Executive Risk Management Committee (ERMC). |
| **Approved by Accountable ELT** | • More granular processes and procedures at the business unit level are approved by the accountable Executive Leadership Team (ELT) member. |

## Stress Testing

Stress testing is an important component of our risk management framework. Stress testing results are used to:

- ensure the Bank's Risk Appetite is commensurate with its risk capacity
- ensure the Bank has sufficient capital for its risk profile
- comprehensively address all potential sources of stress events
- ensure the Bank has a buffer to withstand extreme, unknown events/shocks/stresses
- ensure the Bank has capacity to recover from stress conditions

We incorporate the results of our stress tests into our Internal Capital Adequacy Assessment Process (ICAAP).

## ICAAP

The ICAAP is an integral part of the Bank's Enterprise Risk Management program. The ICAAP supports the Bank in ensuring that capital targets and levels are adequate to support the material risks of business operations, that capital is effectively deployed and maintained, and that capital decisions are aligned with the Bank's Risk Appetite, Corporate Policies and Management Guidelines.

## Material Risks

Material risks are those considered significant to the success of Concentra. The Bank takes on risks that are aligned with its strategic direction and risk appetite and create value for shareholders.

### Credit and Counterparty Risk

Credit risk is the risk of financial loss due to a borrower, guarantor or counterparty's inability or unwillingness to fulfill contractual payment obligations. Counterparty credit risk is the risk that a counterparty to a derivative or FX spot transaction could default before the final settlement of the transaction.

Activities in place to manage Concentra's credit risk profile within risk appetite and risk tolerances and limits include maintaining prudent credit granting criteria, entering into transactions within the Bank's expertise, stress testing, maintaining underwriting guidelines and procedures, using legally enforceable bi-lateral and multi-lateral netting agreements and collateral arrangements with counterparties, and complying with regulatory expectations, regulations and guidelines. In addition, the Board approved business lending strategy guides credit activities within the risk appetite and capital capacity of the Bank.

The enterprise level credit risk profile is monitored by the ERMC.

The Credit Risk function of Concentra is part of the Risk Management Group and is segregated from credit business generation activities. The Bank follows a dual stream approval process for credit transactions, where the First Line of Defense (Retail and Commercial Banking) recommends a transaction, and the Second Line of Defense (Credit Risk function within the Risk Management Group) concurs with the recommendation. Both a recommendation and concurrence must occur for the transaction to be approved. In addition, Credit Risk conducts ongoing systematic reviews of the credit adjudication process and the condition of the credit portfolio, with regular reporting to the Board.

### Market Risk

Market Risk at Concentra refers to the interest rate risk in the banking book. Concentra does not have a trading book to trade actively in the capital markets. Interest rate risk in the banking book arises due to the duration mismatch between assets and liabilities. Adverse interest rate movements may cause a reduction in earnings and/or a reduction in the economic value of the Bank's assets or liabilities, resulting in a reduction of economic value of shareholders' equity.

Activities in place to manage Concentra's market risk profile within risk appetite and risk tolerances and limits include: monitoring exposure to changes in interest rates and foreign exchange rates, simulating the impact of interest rate changes; using on- and off-balance sheet strategies to manage interest rate and foreign exchange risk; stress testing; and complying with regulatory expectations, regulations and guidelines.

Shortly after the pandemic started in March 2020, the Bank of Canada cut the policy interest rate by 150 bps and has maintained the rate at 25bps. Together with proactive interest rate risk management, the Bank's interest rate risk in the banking book has stabilized since then.

### Liquidity and Funding Risk

Liquidity and funding risk is the risk of financial loss due to an inability to access sources of funds or to generate sufficient cash or cash equivalents in a timely manner to meet all commitments as they become due, without raising funds at adverse rates or selling on a forced basis.

Activities in place to manage Concentra's liquidity and funding risk profile within risk appetite and risk tolerances and limits include: daily monitoring of cash flows; investing a prudent portion of the investment portfolio in liquid, low-risk unencumbered instruments; acquiring credit union, commercial and retail deposits and accessing capital markets; diversifying funding sources; maintaining external credit facilities; maintaining investment grade market rating; maintaining a liquidity plan, funding strategy and contingency funding plan; stress testing; and complying with regulatory expectations, regulations and guidelines.

### Model Risk

Model risk is the risk of adverse financial (e.g., capital, losses, revenue) and reputational consequences arising from the design, development, implementation and/or use of a model. It can originate from, among other things, inappropriate specification; incorrect parameter estimates; flawed hypotheses and/or assumptions; mathematical computation errors; inaccurate, inappropriate or incomplete data; inappropriate, improper or unintended usage; and inadequate monitoring and/or controls.

Concentra uses models for a variety of purposes, including but not limited to credit adjudication, pricing, financial forecasting, loan loss provisioning, profitability assessment (e.g. risk-adjusted return on capital), capital adequacy, derivative valuation, interest rate risk analysis and liquidity forecasting. The Risk Management Group, through the Risk Review, Analytics and Reporting function, provides oversight to the design, development, validation, use and decommissioning of models through the model risk lifecycle.

Concentra uses models to conduct stress testing and develops mitigation plans for extreme but plausible stress events. Stress testing provides preparedness information should risk levels require capital and resource allocations. In addition, stress testing assists in understanding the Bank's ability to withstand unforeseen potential threats to its future profitability and capital adequacy. Stress testing results are used to assess capital adequacy within the ICAAP and set risk appetite levels within the risk capacity of the Bank. Sensitivity, scenario and reverse engineered analysis stress testing are undertaken by Concentra in accordance with OSFI's ICAAP Guideline.

In alignment with regulatory requirements, Concentra uses a Three Lines of Defense (LOD) model risk governance structure and Model Risk Management Framework (MRMF).

The MRMF defines an end-to-end model life cycle, and the roles and responsibilities of stakeholders in different stages of the life cycle. The MRMF requires model documentation by the model owner or developer (1st LOD), and independent vetting/validation by the model reviewer (2nd LOD). The ERMC must approve models with material model risk ratings before they are put into production use.

Concentra uses a dynamic, centralized model inventory to manage and facilitate model oversight by the 2nd LOD. The validation of models by risk management is prioritized according to the materiality of the model.

### Operational Risk

Operational risk is the risk of direct or indirect loss resulting from people, inadequate or failed internal processes or systems, or from external events. Operational risk is inherent in all business activities.

Effective operational risk management is based upon a structured approach to the identification, analysis, evaluation, treatment, monitoring, review and reporting of risk. Key processes in place include risk and control self-assessments, oversight of significant transactions and new initiatives, policies and procedures, outsourcing program management, third-party risk management, operational risk event tracking and maintenance of an appropriate internal control environment.

The enterprise level operational risk profile is monitored at the management level by the ERMC. The Technology Risk Management Committee focuses specifically on the effectiveness of enterprise-level governance and controls for management information technology risk.

The Trust Risk Management Committee ensures effective governance and controls are in place to manage fiduciary risk for Concentra Trust. Fiduciary risk is considered an element of operational risk and arises from the possibility that Concentra Trust is not performing fiduciary services with the applicable standard of care.

### Strategic Risk

Strategic risk is the risk of exposure to loss resulting from changes in the external business environment or failure to respond appropriately to these changes as a result of inaction, ineffective strategies or poor implementation of strategies.

Management assesses strategic risk in conjunction with strategy formulation to facilitate the selection of the most optimal strategic options. This assessment is done across four dimensions:

- Business risk - includes assessing the risk of competition, changing customer behaviors and impacts of other external forces such as changes in the economy and the overall market stability, geopolitical, regulatory, technological and social risks
- Capital adequacy - Concentra's financial capacity to absorb potential expected and unexpected losses resulting from our strategy is correlated to the contemplated changes in Concentra's overall risk profile and its earnings predictability and stability
- Concentra's risk appetite - assessing risk appetite adequacy is a derivative of targeted asset mix, customer segments, growth levels, required investments, targeted borrower risk profiles and industries
- Execution risk – assessing Concentra's capability to execute on strategies includes our people, technology, systems, processes and procedures

The strategic plan, encompassing a five-year time horizon, is approved by the Board on an annual basis. The strategic plan identifies Concentra's desired future state and approach to meeting target goals. The Bank undertakes operational planning and budgeting to develop the annual business plan. The fundamentals of Concentra's strategic shift towards the direct-to-customer business model are underpinned by new and existing partnerships with innovative third party providers, and a collective mindset focused on innovation and agility in execution. Risk management is a key partner in selecting, prioritizing and executing on our strategic initiatives, including the direct and indirect business origination channels. The Bank's New Initiative Risk Assessment and New Initiative Risk Approval Process provide consistency in new initiative risk assessment and mitigation, and transparency in the coverage of pre and post launch controls.

A growing part of Concentra's strategic shift is aimed at leveraging digital platforms and data to differentiate the customer experience. In this strategic digitalization of the Bank, we're also acutely aware of the need to protect customer information and we extend this vigilance throughout the Bank, educating Concentra employees on risk-reduction strategies and raising awareness among our third party providers. Concentra's due diligence of its third party providers subjects them to standards driven by our own Risk Appetite Framework, which in turn reflect regulatory expectations.

#### Legal and Regulatory Risk

Regulatory compliance risk is the risk of regulatory sanctions or restricted business capacities due to non-compliance with applicable regulatory requirements within governing legislation, regulations and regulators' expectations applicable to the operations of Concentra. A regulatory requirement obligates the Bank to do (or prohibits it from doing) certain things or to act or conduct its affairs in a particular manner.

The Chief Compliance Officer ("CCO") is responsible to oversee the design, development, implementation and maintenance of the regulatory compliance programs for the Bank. Within this responsibility, the CCO ensures that key day-to-day controls throughout the Bank are sufficiently robust to effectively mitigate the risk of non-compliance with regulatory and legislative requirements. Regulatory compliance matters are reported to the ERMC and to the Board through the Risk Committee.

Concentra has a Chief Anti-Money Laundering Officer ("CAMLO") who is responsible for ensuring corporate-wide measures to mitigate money laundering and terrorist financing activity risks within the entire Bank are in place. Further, the CAMLO is responsible for the design, development, implementation and maintenance of the Anti-Money Laundering and Anti-Terrorist Financing ("AML/ATF") Program for the Bank.

Concentra has a Privacy Officer who is responsible for the establishment, implementation and ongoing assessment of the Bank's privacy program and related controls.

Regulatory compliance management integration is facilitated throughout Concentra by designated Business Compliance Officers and Anti-Money Laundering Officers within business operations.

#### Reputation Risk

Reputation risk is the risk of negative publicity regarding the Bank's business conduct or practices which, whether true or not, could have the potential to significantly harm the Bank's reputation or could materially and adversely affect the Bank's business, operations or financial condition.

Concentra has a Reputation Risk Management policy that provides guidance on the management of the Bank's reputation risk, a Code of Conduct/Conflict of Interest policy that must be followed by all Board members, officers and employees, and a Responsible Persons Assessment policy to assess the suitability and integrity of members of the Board and members of management who play a significant role in the management of Concentra. In addition, Concentra has a communications policy and crisis management processes in place to protect the Bank's image, brand and reputation.

### Other Risk Factors

In addition to the material risks described above, other risk factors in the Bank's operating environment can pose key vulnerabilities to Concentra. These risk factors are externalities that are systemic in nature and beyond the Bank's ability to control and the impacts can be difficult to predict.

### Risk Monitoring and Reporting

Ongoing monitoring and reporting processes are in place through the risk management committees, the Corporate Policies and Management Guidelines, and the Chief Risk Officer and Risk Management Group Mandates. Monitoring and reporting of adherence to risk appetite and Corporate Policy is provided regularly to management and the Risk Committee of the Board. The Bank is committed to full and transparent disclosure and communicates the development of significant risks to the Risk Committee as soon as possible.

**Concentra Bank**
Operating under the trade name
Wyth Financial

# Consolidated financial statements

December 31, 2021

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying Consolidated Financial Statements of Concentra Bank ("the Bank") were prepared by management who is responsible for the integrity and fairness of the information presented and for ensuring that all the information in the Management's Discussion and Analysis is consistent with the Consolidated Financial Statements. This responsibility includes the selection of appropriate accounting policies and making objective judgements and estimates in accordance with International Financial Reporting Standards, in accordance with the requirements of the *Bank Act (Canada)*, and the related rules and regulations issued by the Office of the Superintendent of Financial Institutions Canada.

In discharging this responsibility for the integrity and fairness of the Consolidated Financial Statements and for the accounting systems from which they are derived, management maintains the necessary systems of internal control to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. This control is augmented by written policies and procedures, the careful selection and training of qualified staff, the creation of organizational structures that provide a well-defined division of responsibilities and accountability for performance, and the written communication of policies and guidelines for business conduct throughout the Bank. This system of internal controls is supported by a compliance function which is designed to ensure compliance with all regulatory requirements and by an internal audit function which carries out periodic audits of the operations of the Bank.

The Board of Directors carries out its responsibilities for reviewing the Consolidated Financial Statements through its Audit and Conduct Review Committee which is composed entirely of directors who are neither officers nor employees of the Bank. The Audit and Conduct Review Committee reviews the Consolidated Financial Statements and recommends approval to the Board of Directors. Other responsibilities of the Audit and Conduct Review Committee include meeting regularly with management, internal audit and the Bank's external auditors, to discuss the effectiveness of internal controls over the financial reporting process as well as the planning and results of the external audit. Both the external and internal auditors have full and free access to the Audit and Conduct Review Committee.

The Office of the Superintendent of Financial Institutions Canada examines and inquires into the business affairs of the Bank as deemed necessary to determine whether the provisions of the *Bank Act (Canada)*, having reference to the safety of the depositors, are being duly observed and that Concentra is in a sound financial condition.

KPMG LLP, the external auditors are appointed by the shareholders of the Bank, upon the recommendation of the Audit and Conduct Review Committee, to perform an independent audit of the Consolidated Financial Statements and provide an opinion thereon; their report is presented separately.

**Don Coulter,**
President and Chief Executive Officer

**Paul Masterson,**
Chief Financial Officer

Regina, Canada
March 2, 2022

KPMG LLP
Hill Centre Tower II
1881 Scarth Street, 20th Floor
Regina Saskatchewan S4P 4K9
Canada
Telephone (306) 791-1200
Fax (306) 757-4703

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Concentra Bank (operating as Wyth Financial)

### *Opinion*

We have audited the consolidated financial statements of Concentra Bank (operating as Wyth Financial) (the Entity), which comprise:

- the consolidated balance sheet as at December 31, 2021
- the consolidated statement of income for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### *Basis for Opinion*

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

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

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

Page 2

### *Other Information*

Management is responsible for the other information. Other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained Management's Discussion and Analysis as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

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

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

### *Auditors' Responsibilities for the Audit of the Financial Statements*

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

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

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

Page 3

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

We also:

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

Regina, Canada
March 2, 2022

## CONSOLIDATED BALANCE SHEET

**As at December 31**

(In Thousands of Canadian Dollars)

| | Note | 2021 | 2020 |
|---|---|---|---|
| **ASSETS** | | | |
| **Cash** | | **$ 196,732** | $ 763,710 |
| **Securities** | 3 | **1,474,253** | 1,294,261 |
| **Loans Receivable** | | | |
| Retail loans | | **8,130,279** | 7,951,174 |
| Commercial loans | | **947,918** | 877,667 |
| | 6 | **9,078,197** | 8,828,841 |
| **Other** | | | |
| Derivative assets | 5 | **7,216** | 15,877 |
| Other securitization assets | 4 | **85,784** | 94,277 |
| Goodwill | | **19,248** | 19,248 |
| Other assets | 8 | **45,443** | 47,697 |
| | | **157,691** | 177,099 |
| | | **$ 10,906,873** | $ 11,063,911 |
| **LIABILITIES** | | | |
| **Deposits** | 10 | **$ 6,695,642** | $ 6,334,180 |
| **Securitization Liabilities** | 4 | **3,439,709** | 3,921,683 |
| **Loans and Notes Payable** | 11 | **164,259** | 214,745 |
| **Other** | | | |
| Derivative liabilities | 5 | **7,075** | 18,150 |
| Accounts payable | | **19,515** | 13,118 |
| Other liabilities | 12 | **35,451** | 34,920 |
| | | **62,041** | 66,188 |
| | | **10,361,651** | 10,536,796 |
| **COMMITMENTS AND CONTINGENCIES** | 17 | | |
| **SUBSEQUENT EVENTS** | 22 | | |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 13 | **245,239** | 245,239 |
| Retained earnings | | **301,661** | 268,322 |
| Accumulated other comprehensive (loss) income | | **(1,678)** | 13,554 |
| | | **545,222** | 527,115 |
| | | **$ 10,906,873** | $ 11,063,911 |

The accompanying notes form an integral part of these consolidated financial statements.

**Don Coulter**
President and Chief Executive Officer

**Glen Dyrda**
Director and Chair, Audit and Conduct Review Committee

## CONSOLIDATED STATEMENT OF INCOME

**For the Year Ended December 31**

(In Thousands of Canadian Dollars)

| | Note | 2021 | 2020 |
|---|---|---|---|
| **INTEREST INCOME** | | | |
| Loans receivable | | $ **276,579** | $ 268,858 |
| Securities | | **18,409** | 22,527 |
| | | **294,988** | 291,385 |
| **INTEREST EXPENSE** | | | |
| Deposits | | **90,810** | 106,700 |
| Securitization liabilities | | **58,542** | 67,373 |
| Loans and notes payable | | **995** | 5,154 |
| Other direct expenses | | **21,271** | 16,214 |
| | | **171,618** | 195,441 |
| **NET INTEREST INCOME** | | **123,370** | 95,944 |
| Provision for credit (recoveries) losses | 7 | **(1,709)** | 8,894 |
| **NET INTEREST INCOME AFTER PROVISIONS** | | **125,079** | 87,050 |
| **NON-INTEREST INCOME** | | | |
| Fee-for-service income | 14 | **18,866** | 17,950 |
| Gain on financial instruments | 15 | **4,371** | 7,413 |
| | | **23,237** | 25,363 |
| **NET INTEREST AND NON-INTEREST INCOME** | | **148,316** | 112,413 |
| | | | |
| **NON-INTEREST EXPENSE** | | | |
| Salaries and employee benefits | | **54,593** | 46,222 |
| Information technology | | **12,250** | 9,690 |
| Other operating | | **9,071** | 8,574 |
| Professional and advisory services | | **7,384** | 6,446 |
| Capital and excise taxes | | **3,979** | 4,032 |
| Occupancy | | **2,088** | 2,641 |
| | | **89,365** | 77,605 |
| **INCOME BEFORE INCOME TAXES** | | **58,951** | 34,808 |
| Income tax expense | 9 | **15,863** | 9,425 |
| **NET INCOME** | | $ **43,088** | $ 25,383 |

The accompanying notes form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**For the Year Ended December 31**

(In Thousands of Canadian Dollars)

| | Note | | 2021 | | 2020 |
|---|---|---|---|---|---|
| **NET INCOME** | | $ | **43,088** | $ | 25,383 |
| **OTHER COMPREHENSIVE (LOSS) INCOME** | | | | | |
| Items that will be reclassified subsequently to net income: | | | | | |
| **Securities at fair value through OCI** | | | | | |
| Net unrealized (losses) gains on FVOCI securities, before tax | | | **(12,400)** | | 11,713 |
| Reclassification of gains on FVOCI securities to net income, before tax | | | **(283)** | | (32) |
| Reclassification of impairment (recoveries) losses on FVOCI securities to net income, before tax | | | **(34)** | | 281 |
| **Loans at fair value through OCI** | | | | | |
| Net unrealized (losses) gains on FVOCI loans, before tax | | | **(11,765)** | | 9,265 |
| Reclassification of gains on FVOCI loans to net income, before tax | | | **(236)** | | (386) |
| Reclassification of impairment losses on FVOCI loans to net income, before tax | | | **1,012** | | 11 |
| **Cash flow hedges** | | | | | |
| Net gains (losses) on derivatives designated as cash flow hedges, before tax | 5 | | **2,780** | | (7,121) |
| Reclassification of losses on derivatives designated as cash flow hedges to net income, before tax | 5 | | **91** | | 391 |
| Income tax relating to components of other comprehensive income that will be reclassified subsequently to net income | 9 | | **5,603** | | (3,803) |
| **OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX** | | | **(15,232)** | | 10,319 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | $ | **27,856** | $ | 35,702 |

The accompanying notes form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**For the Year Ended December 31**

(In Thousands of Canadian Dollars)

| | Note | 2021 | 2020 |
|---|---|---|---|
| **SHARE CAPITAL** | | | |
| Balance, beginning of year | | $ **245,239** | $ 245,239 |
| Balance, end of year | 13 | **245,239** | 245,239 |
| **RETAINED EARNINGS** | | | |
| Balance, beginning of year | | **268,322** | 253,414 |
| Net income | | **43,088** | 25,383 |
| Preferred dividends | 13 | **(4,379)** | (5,105) |
| Common dividends | 13 | **(5,370)** | (5,370) |
| Balance, end of year | | **301,661** | 268,322 |
| **ACCUMULATED OTHER COMPREHENSIVE INCOME** | | | |
| **Securities at fair value through OCI, net of taxes** | | | |
| Balance, beginning of year | | **8,861** | 121 |
| Other comprehensive (loss) income | | **(9,298)** | 8,740 |
| Balance, end of year | | **(437)** | 8,861 |
| **Loans at fair value through OCI, net of taxes** | | | |
| Balance, beginning of year | | **7,220** | 724 |
| Other comprehensive (loss) income | | **(8,033)** | 6,496 |
| Balance, end of year | | **(813)** | 7,220 |
| **Cash flow hedges, net of taxes** | | | |
| Balance, beginning of year | | **(2,527)** | 2,390 |
| Other comprehensive income (loss) | | **2,099** | (4,917) |
| Balance, end of year | | **(428)** | (2,527) |
| **TOTAL ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME** | | **(1,678)** | 13,554 |
| **TOTAL SHAREHOLDERS' EQUITY** | | $ **545,222** | $ 527,115 |

The accompanying notes form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

**For the Year Ended December 31**

(In Thousands of Canadian Dollars)

| | Note | 2021 | 2020 |
|---|---|---|---|
| **CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES** | | | |
| Net income | | **$ 43,088** | $ 25,383 |
| Adjustments to determine net cash from operating activities: | | | |
| Net interest income | | **(123,370)** | (95,944) |
| Provision for credit losses | 7 | **(1,709)** | 8,894 |
| Gain on financial instruments | 15 | **(4,371)** | (7,413) |
| Amortization of premises and equipment | 8 | **1,013** | 1,321 |
| Amortization of other intangible assets | 8 | **1,263** | 1,026 |
| Income tax expense | 9 | **15,863** | 9,425 |
| Changes in operating assets and liabilities: | | | |
| Loans receivable, net of repayments and sales | | **(258,408)** | (1,288,391) |
| Other assets | | **(23)** | 496 |
| Deposits, net of withdrawals | | **365,627** | 1,951,750 |
| Securitization liabilities, net of repayments | | **(289,687)** | 431,991 |
| Loans and notes payable, net of repayments | | **(49,674)** | (205,515) |
| Accounts payable | | **6,624** | (45,632) |
| Interest received | | **307,401** | 302,878 |
| Interest paid | | **(171,210)** | (183,487) |
| Net realized losses from derivatives | | **(1,145)** | (1,699) |
| Net realized gains from derivatives designated as cash flow hedges | | **2,319** | (5,566) |
| Income taxes paid | | **(2,686)** | (15,359) |
| Net cash (used in) from operating activities | | **(159,085)** | 884,158 |
| **CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES** | | | |
| Proceeds from sales and maturities of securities | | **1,796,224** | 333,100 |
| Purchase of securities | | **(2,189,618)** | (843,004) |
| Premises and equipment purchases, net of disposals | | **(198)** | (29) |
| Intangible asset additions, net of disposals | | **(3,872)** | (1,761) |
| Net cash used in investing activities | | **(397,464)** | (511,694) |
| **CASH FLOWS USED IN FINANCING ACTIVITIES** | | | |
| Dividends paid | 13 | **(9,749)** | (10,475) |
| Cash outflow for lease financing | | **(680)** | (807) |
| Net cash used in financing activities | | **(10,429)** | (11,282) |
| **NET (DECREASE) INCREASE IN CASH** | | **(566,978)** | 361,182 |
| Cash, beginning of year | | **763,710** | 402,528 |
| **CASH, END OF YEAR** | | **$ 196,732** | $ 763,710 |

The accompanying notes form an integral part of these consolidated financial statements.

**Concentra Bank**
Operating under the trade name
Wyth Financial

# Notes to consolidated financial statements

For the year ended December 31, 2021

(In thousands of canadian dollars unless otherwise indicated)

## 1. GENERAL INFORMATION

Concentra Bank ("the Bank") is a Schedule 1 chartered bank domiciled in Canada that carries on business pursuant to the *Bank Act (Canada)* and is regulated by The Office of the Superintendent of Financial Institutions Canada ("OSFI"). The Bank's registered head office is located at 333 – Third Avenue North, Saskatoon, Saskatchewan, Canada, S7K 2M2. The Bank provides commercial and retail banking and trust services to Canadian credit unions and retail and commercial clients. The Bank's trust services are provided through its federally regulated subsidiary, Concentra Trust. Effective November 15, 2021 the Bank began operating under the trade names Wyth Financial and Wyth Trust respectively.

Credit Union Central of Saskatchewan ("SaskCentral") holds 84.0% of the voting rights and is the controlling shareholder of the Bank.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Presentation

#### (a) Statement of compliance

The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements of the Bank have been prepared in accordance with subsection 308(1) of the *Bank Act (Canada)* which states that, except as otherwise specified by the OSFI, the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles which require publicly accountable enterprises to report using IFRS. The significant accounting policies followed in the preparation of these consolidated financial statements, including the accounting requirements of OSFI, are summarized below. These policies have been consistently applied to all years presented and conform in all material respects to IFRS.

The consolidated financial statements for the year ended December 31, 2021, were approved for issue by the Board of Directors on March 2, 2022.

#### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for: (1) assets/liabilities held for sale, which are measured at the lower of fair value less costs to sell and the previous carrying value of the assets/liabilities prior to being classified as held for sale; and (2) the following items which are measured at fair value:

- Financial assets at fair value through other comprehensive income ("FVOCI")
- Financial assets at fair value through profit or loss ("FVTPL")
- Derivatives at fair value

#### (c) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the Bank's functional currency. Except as otherwise indicated, financial information presented in Canadian dollars has been rounded to the nearest thousand.

#### (d) Use of estimates and judgement

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could materially differ from those estimates thereby impacting the consolidated financial statements. Management believes that the underlying assumptions are appropriate and that the Bank's consolidated financial statements therefore present the financial position and results fairly.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Accounting estimates and judgements which represent key sources of estimation uncertainty include the fair value, classification and impairment of financial assets, derecognized securitizations, goodwill impairment testing, litigation and other contingencies and measurement of hedging ineffectiveness.

Information about key estimates and critical judgements are described in Note 2.17.

## 2.2 Basis of Consolidation

The Bank conducts business through various corporate structures including subsidiaries and other investments. The consolidated financial statements include the Bank's assets, liabilities and results of operations, after the elimination of intercompany transactions and balances, of all subsidiaries for which the Bank has concluded it controls. Control is achieved when the Bank has: (1) power over the investee; (2) exposure, or rights, to variable returns from its involvement with the investee; and (3) the ability to use its power over the investee to affect the amount of the Bank's returns. The Bank reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these three elements of control.

Structured entities are entities that are created to accomplish a narrow and well-defined objective such as the securitization of particular assets or the execution of a specific borrowing or lending transaction. A structured entity is consolidated, if based on an evaluation of the substance of its relationship with the Bank and the structured entity's risks and rewards, the Bank concludes that it controls the entity. The Bank's activities have not resulted in any circumstances that would require a structured entity to be consolidated within these consolidated financial statements.

The consolidated financial statements have been prepared using consistent accounting policies and valuation methods for like transactions and other events in similar circumstances.

The following entity is included in the consolidated financial statements of the Bank:

- **Concentra Trust** – the Bank owns 100% of the common shares of Concentra Trust. As such, these consolidated financial statements include the assets and liabilities and results of operations of this wholly owned subsidiary, net of intercompany eliminations.

## 2.3 Financial Instruments

### 2.3.1 Recognition and Initial Measurement

The initial measurement of a financial instrument is at fair value plus transaction costs that are directly attributable to its purchase or issuance. For instruments measured at fair value through profit or loss, transaction costs are recognized immediately in profit or loss.

Regular-way purchases and sales of financial assets are recognized on the settlement date. All other financial assets and financial liabilities, including derivatives, are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

### 2.3.2 Classification and Subsequent Measurement

(a) Financial assets: debt instruments

Financial assets which meet the definition of debt, including loans and debt securities, are classified into one of the following measurement categories:

- Amortized cost;
- FVOCI; or
- FVTPL.

Debt instruments may be designated at FVTPL upon initial recognition if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise. For all other debt instruments, classification is determined based on an assessment of: (i) the business model under which the asset is held; and (ii) the contractual cash flow characteristics of the instrument.

*(i) Business model assessment*

The business model assessment involves determining whether financial assets are managed in order to generate cash flows from collection of contractual cash flows, from the sale of the financial assets, or both. The Bank assesses business models at a portfolio level reflective of how groups of assets are managed together to achieve a particular business objective. For the assessment of business models the Bank takes into consideration the following factors:

- How the performance of assets in a portfolio is evaluated and reported to key decision makers within the Bank's business lines;
- The risks that affect the performance of assets held within a business model and how those risks are managed;
- Whether the assets are held for trading purposes (i.e., assets that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking);

- How management compensation is determined for those responsible for managing the assets; and
- The frequency, reason for sales, and volume of sales in prior periods and expectations about future sales activity.

*(ii) Cash flow characteristics assessment*

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

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instrument due to repayments.

Interest is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding and for liquidity risk and administrative costs, as well as a profit margin.

In performing this assessment, the Bank takes into consideration contractual features that could change the amount or timing of contractual cash flows, such that the cash flows are no longer consistent with a basic lending arrangement. If the Bank identifies any contractual features that could modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Debt instruments measured at amortized cost

Debt instruments are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent SPPI. After initial measurement, debt instruments in this category are carried at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortized cost is calculated taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate. Amortization of premiums, discounts and other transaction costs is included in interest income in the consolidated statement of income.

Impairment of debt instruments measured at amortized cost is calculated using the expected credit loss ("ECL") approach. Debt instruments, including loans and securities are presented net of the related allowance for impairments on the consolidated balance sheet.

Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are SPPI. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income ("OCI"), unless the instrument is designated in a fair value hedge relationship. When designated in a fair value hedge relationship any changes in fair value due to changes in the hedged risk are recognized in the consolidated statement of income. Premiums, discounts and related transaction costs are amortized over the expected life of the instrument to interest income in the consolidated statement of income using the effective interest rate method.

Impairment of debt instruments measured at FVOCI is calculated using the ECL approach. An allowance for credit losses is not recognized in the consolidated balance sheet for FVOCI debt instruments as the carrying value of these instruments is equal to fair value and therefore should not be reduced. Instead, an impairment reserve equal to the calculated allowance is recognized in OCI with a corresponding charge to net provision for credit losses in the consolidated statement of income. Upon derecognition of a FVOCI debt instrument the accumulated unrealized fair value gains and losses, together with the impairment reserve, are recycled from accumulated other comprehensive income ("AOCI") to the consolidated statement of income.

Debt instruments measured at FVTPL

Debt instruments measured at FVTPL include assets held for trading purposes, assets held as part of a portfolio managed on a fair value basis, assets whose cash flows do not represent payments that are SPPI, and assets which are designated as such at initial recognition. These instruments are measured at fair value in the consolidated balance sheet, with transaction costs recognized immediately in the consolidated statement of income as part of gain on financial instruments in the consolidated statement of income. Realized and unrealized gains and losses are recognized as part of gain on financial instruments in the consolidated statement of income.

(b) Financial assets: equity instruments

Financial assets which meet the definition of equity are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase.

For equity instruments measured at FVTPL, changes in fair value are recognized as part of gain on financial instruments in the consolidated statement of income.

The Bank can elect to classify non-trading equity instruments at FVOCI. This election will be used for certain equity investments for strategic or longer term investment purposes. The FVOCI election is made upon initial recognition, on an instrument-by-instrument basis and once made is irrevocable. Both realized and unrealized gains and losses on these instruments are recorded in OCI and are not subsequently reclassified to the consolidated statement of income. Dividends received are recorded in interest income in the consolidated statement of income. Any transaction costs incurred upon purchase of the security are added to the cost basis of the security and are not reclassified to the consolidated statement of income on sale of the security.

(c) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities may be designated at FVTPL when one of the following criteria is met:

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise required.

Financial liabilities at FVTPL are measured at fair value with changes in fair value being recognized in the consolidated statement of income. Other financial liabilities are measured at amortized cost using the effective interest method.

With the exception of its derivative financial instruments which are FVTPL, the Bank's holdings in financial liabilities are classified as measured at amortized cost.

### 2.3.3 Derecognition

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or when the Bank has transferred substantially all the risks and rewards of ownership of the assets.

Where substantially all of the risks and rewards of ownership of the financial asset are neither retained nor transferred, the Bank derecognizes the transferred asset only if it no longer controls the asset. Control is represented by the practical ability to sell the transferred asset without the need to impose additional restrictions. If the Bank retains control over the asset, it will continue to recognize the asset to the extent of its continuing involvement. When a financial asset is derecognized in full, a gain or loss is recognized in net income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received, including any new assets and/or liabilities recognized.

Financial liabilities are derecognized when the associated obligation has been discharged, cancelled or otherwise extinguished.

### 2.3.4 Derivative Financial Instruments and Hedge Accounting

The Bank enters into derivative transactions to hedge interest rate and foreign currency risks, and for economic and asset/liability management purposes. The Bank also enters into derivative transactions on an intermediary basis on behalf of its clients. The Bank does not have a trading program for derivatives.

Derivative financial instruments are classified as FVTPL and measured at fair value in the consolidated balance sheet. Changes in fair value are included in the consolidated statement of income within gain on financial instruments unless they are designated in a qualifying hedge accounting relationship.

Hedge accounting may be applied where a derivative is highly effective in offsetting either changes in the fair value or cash flows attributable to the risk being hedged, both at inception and over the life of the underlying asset or liability. The hedging relationship is required to be documented at inception detailing the particular risk management objective and strategy for undertaking the hedge transaction. The Bank assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging instruments have been highly effective in offsetting changes in the fair value or cash flows of the hedged items.

Cash flow hedges

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative, net of income taxes, is recorded in OCI while the ineffective portion is recorded within gain on financial instruments in the consolidated statement of income. All components of each derivative's change in fair value have been included in the assessment of cash flow hedge effectiveness. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued and the amounts previously recorded in OCI are reclassified to net interest income during the periods when the variability in the cash flows of the hedged item affects net interest income. When a forecast transaction is no longer expected to occur, the amounts previously recorded in OCI are immediately reclassified to the statement of income and are recorded in gain on financial instruments.

Fair value hedges

In a fair value hedging relationship, changes in the fair value of the hedging derivative are offset in the consolidated statement of income by the change in the fair value attributable to the hedged risk component of the hedged item. If the hedging instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued prospectively.

### 2.3.5 Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is currently a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

## 2.4 Impairment

### (a) Financial assets

The Bank establishes an allowance for credit losses for the following categories of financial assets that are not measured at FVTPL:

- Financial assets at amortized cost;
- Financial assets at FVOCI (excluding equity instruments);
- Undrawn lending commitments;
- Commercial leases; and
- Financial guarantee contracts.

Expected credit loss impairment model

The Bank uses an ECL methodology to measure impairment of its financial instruments. ECLs reflect the present value of all cash shortfalls related to default events which may occur over a specified period of time. Consequently, the Bank's allowance for credit losses are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The allowances reflect an unbiased, probability-weighted outcome which considers multiple scenarios, based on reasonable and supportable forecasts.

The Bank's ECL impairment model measures loss allowances using a three-stage approach based on the change in credit risk since origination:

- Stage 1 – Where there has not been a significant increase in credit risk ("SICR") since initial recognition of a financial instrument, an amount equal to 12-month ECLs is recorded. The ECL is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SICR subsequent to origination, but is not considered to be in default, it is included in Stage 2. This requires the computation of ECL based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime ECLs.

Financial assets may migrate forward or backward through the three stages as their credit risk deteriorates or improves. When measuring ECLs, the Bank considers the maximum contractual period over which it is exposed to credit risk (expected life). All contractual terms are considered when determining the expected life, including prepayment and extension or rollover options.

### Model parameters

The following variables represent the key inputs in the Bank's ECLs:

- Probability of Default ("PD") – an estimate of the likelihood of default over a given time horizon.
- Loss Given Default ("LGD") – an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the exposure at default.
- Exposure at Default ("EAD") – an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, and expected drawdowns on committed facilities.

These parameters are generally derived from internally developed statistical models utilizing the Bank's own historical loss data by major asset class with the exception of PD and LGD for commercial mortgages/loans, securities, and credit card receivables. Due to the limited number of historical losses within the commercial mortgages/loans and securities portfolios, the Bank has mapped its internal risk ratings to external ratings and utilized both public and proprietary third-party data to determine the appropriate parameters by rating. Due to limited internal historical loss data for the credit card receivables portfolio, the Bank has utilized proprietary third-party models and data to determine the appropriate parameters for the portfolio.

### Significant increase in credit risk

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information with the impact of forward-looking macroeconomic factors.

The common assessments for SICR on retail and non-retail portfolios include macroeconomic outlook, management judgement, and delinquency and monitoring. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. Examples of situations include changes in adjudication criteria for a particular group of borrowers, changes in portfolio composition, and natural disasters impacting certain portfolios. With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of the financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days overdue. The Bank currently does not rebut this presumption.

For retail and small commercial exposures, the Bank considers past delinquency history for individual loans as the primary indicator of SICR. Additionally, the Bank assesses SICR at the portfolio level using historical correlations between macroeconomic factors and past default rates within the portfolio.

For its other commercial exposures, the Bank uses its internal risk rating scale. All exposures have a risk rating assigned that reflects the PD of the borrower which are reviewed and updated at least annually. Significant increase in credit risk is evaluated based on the risk rating migration of the exposures with consideration of forward-looking macroeconomic factors.

### Forward-looking information

The measurement of ECLs for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information ("FLI") requires significant judgement.

In its models, the Bank relies on forward-looking macroeconomic factors, such as the Canadian equity index, unemployment rates, house price index and oil prices. Where available, the Bank will utilize geographic specific macroeconomic factors. Due to a limited loss history, the Bank has relied upon industry norms and best practices to identify key drivers of credit risk and credit losses for each portfolio of financial instruments and has estimated relationships between macroeconomic variables, credit risk and credit losses.

The Bank considers multiple probability-weighted scenarios to estimate the impact of FLI upon ECLs. The Bank considers both internal and external sources of information in order to achieve an unbiased measure of the scenarios used. The Bank relies upon forecasts generated by an external vendor that specializes in economic forecasting in both the Canadian and global markets. The external vendor provides multiple forecasted scenarios which are then assessed and probability-weighted by the Bank using judgement. In the selection of scenarios used for modelling ECLs, the Bank considered both the unprecedented impact and significant uncertainty COVID-19 has had to current economic conditions, including the uncertainty and timing of economic recovery.

The Bank has chosen four scenarios to apply, with the base scenario being most heavily weighted and considered the most likely outcome in the context of current economic conditions as at December 31, 2021. The alternative scenarios represent either more optimistic or pessimistic outcomes and were weighted less heavily relative to the base scenario.

The following table represents the values of the macroeconomic variables over the next four calendar quarters and the remaining 4-year forecast period used in determining the Bank's ECLs. As the forecast period increases, information about the future becomes less readily available and projections are anchored on assumptions around structural relationships between economic parameters that are inherently much less certain.

| **Macroeconomic Variables** | **Base Scenario** | | **Alternative Scenario 1** | | **Alternative Scenario 2** | | **Alternative Scenario 3** | |
|---|---|---|---|---|---|---|---|---|
| | **Average Q1 2022 - Q4 2022** | **Remaining 4-year period** | **Average Q1 2022 - Q4 2022** | **Remaining 4-year period** | **Average Q1 2022 – Q4 2022** | **Remaining 4-year period** | **Average Q1 2022 – Q4 2022** | **Remaining 4-year period** |
| Canadian equity index | 19,724 | 20,587 | 21,433 | 22,550 | 17,785 | 19,256 | 15,400 | 17,259 |
| West Texas Intermediate oil price ($USD) | 67.34 | 62.69 | 69.02 | 67.91 | 54.61 | 59.15 | 42.25 | 51.21 |
| Canadian unemployment rate (%) | 5.8 | 6.1 | 5.0 | 5.2 | 6.7 | 6.6 | 8.0 | 8.0 |
| House price index (% change) | 0.06 | 0.10 | 1.22 | 2.08 | (0.27) | (1.46) | (2.21) | (0.52) |

### Presentation of allowance for credit losses

The Bank presents its allowance for credit losses in the consolidated financial statements as follows:

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount;
- For debt instruments measured at FVOCI, no allowance is recognized in the consolidated balance sheet because the carrying value of these assets is their fair value. However, the amount of impairment that would otherwise have been recognized had the instrument been measured at amortized cost is recognized in OCI with a corresponding charge to the net provision for credit losses in the consolidated statement of income; and
- For undrawn lending commitments, as a provision in other liabilities.

### Modified financial assets

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one, an assessment is made to determine if the financial asset should be derecognized. Where the modification does not result in derecognition, the date of origination continues to be used to determine SICR. Where modification results in derecognition, the original asset is derecognized and the new asset is recognized at its fair value. The difference between the carrying value of the derecognized asset and the fair value of the new asset is recognized as a gain or loss in the income statement.

### Definition of Default

The Bank considers a financial instrument to be in default (Stage 3) as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- Significant financial difficulty of the borrower,
- High probability of the borrower entering a phase of bankruptcy or a financial reorganization, or
- Measurable decrease in the estimated future cash flows from the loan or value of the underlying collateral.

In addition to these observable indicators, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due. The Bank does not currently rebut this presumption except for certain insured loans where, due to the strength of the underlying credit enhancement, it is reasonably certain that collection efforts will result in a full recovery of the defaulted loan.

### Write-off policy

The Bank writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may occur earlier. In subsequent periods, any recoveries of amounts previously written off are credited to the net provision for credit losses in the consolidated statement of income.

### (b) Property held for resale

Property held for resale acquired through the settlement of loans is valued at the lower of the outstanding balance of the loan at the date of acquisition adjusted for costs incurred subsequent to foreclosure or repossession and the fair value of the property less costs of disposal. Property held for resale is sold as soon as practicable, with the proceeds used to reduce the outstanding net carrying value. Property held for resale is recorded in the consolidated balance sheet within residential mortgages.

### (c) Financial guarantees

Certain loan assets are secured by limited financial guarantees issued by third parties unrelated to the underlying borrower. When the financial guarantee forms an integral part of the loan asset, the contract is not recognized separately and instead the value of the guarantee is considered when determining the allowance for credit losses for the related loan. When the financial guarantee does not form an integral part of the loan asset, it is recognized separately as a reimbursement asset equal to the lesser of: (1) the difference between the impaired carrying value of the loan and what the carrying value would be if impairment had not occurred; and (2) the maximum amount of the financial guarantee. Recoveries from financial guarantees are recorded within provision for credit losses in the consolidated statement of income to offset the associated impairment loss. Reimbursement assets are included in other assets as an accounts receivable.

The Bank has not issued any financial guarantee contracts with the exception of limited guarantees related to assets that did not qualify for derecognition as described in Note 4.1.2.

### (d) Non-financial assets

At each reporting date, the Bank reviews its non-financial assets (other than deferred income tax assets) to determine whether there are any indicators of impairment. If such indicators exist, an impairment test is performed to compare the carrying value of the assets to their recoverable amount. Goodwill is tested for impairment annually regardless of whether an impairment indicator exists.

For impairment testing, assets are grouped together into the smallest possible group (“cash-generating unit”) that generates cash inflows from the continuing use of the assets that are largely independent of the cash inflows of other assets or cash-generating units. Goodwill arising from a business combination is allocated to the cash-generating unit or groups of cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount is then determined as the greater of the present value of the cash flows expected to be generated by an asset/cash-generating unit (“value-in-use”) or the fair value less costs of disposal, if determinable.

If the carrying value of an asset/cash-generating unit exceeds the recoverable amount, an impairment loss equal to the difference is recognized in the consolidated statement of income. Impairment losses on goodwill are never reversed. For other non-financial assets, an impairment loss may be reversed in subsequent periods only to the extent that the asset's carrying value does not exceed what it would have been, net of amortization, had no impairment loss occurred.

### 2.5 Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The Bank follows a fair value hierarchy to categorize the inputs used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Valuation techniques used to measure fair value maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Fair values are determined by reference to quoted bid or asking prices, as appropriate, in the principal market or most advantageous market for that asset or liability to which the Bank has immediate access (Level 1).

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active; (c) inputs other than quoted prices that are observable for the asset or liability such as interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads; and (d) market-corroborated inputs.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those assumptions, the Bank looks primarily to external readily observable market inputs including factors such as interest rate yield curves, currency rates, and price and rate volatilities, as applicable (Level 2). In certain circumstances, the Bank uses one or more input parameters that are not based on observable market data or uses observable inputs that require significant adjustment based on unobservable inputs (Level 3). The impact on net income of valuations reflecting non-market observable inputs (Level 3 valuations) is disclosed in Note 19. The Bank believes that using possible alternative assumptions will not result in significantly different fair values.

The credit quality of financial assets and financial liabilities, including derivative instruments, is considered in determining the fair value of these instruments. In determining the credit quality of the instrument both the Bank's own credit risk and the risk of the counterparty are considered elements of this credit quality.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Bank holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk.

### 2.6 Interest Income and Expense

Interest for all interest-bearing financial assets and liabilities is recognized within interest income and interest expense respectively in the consolidated statement of income. Transaction costs and premiums/discounts incurred in the acquisition of financial assets or issuance of financial liabilities are amortized to interest income or expense using the effective interest method. Dividends on equity instruments are recognized in the consolidated statement of income in securities interest income when the Bank's right to receive payment is established.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized at the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### 2.7 Revenue from Contracts with Customers

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Bank recognises revenue when it transfers control over a product or service to a customer.

Incremental costs of obtaining a contract are recognized in net income on a basis consistent with the transfer of control of the related product or service. The Bank utilizes a practical expedient and expenses these costs as they are incurred when the expected recognition period is one year or less.

The following is a description of the principal activities, by reporting segment, from which the Bank generates revenue including the nature of performance obligations, the timing of when these obligations are satisfied and significant payment terms:

#### (a) Commercial and Retail Banking

The Commercial and Retail Banking segment primarily generates revenue through its syndication and asset/liability servicing, professional services and banking services:

- **Syndication and servicing fees** – represents fees earned by the Bank from syndication activities and ongoing asset/liability administration and servicing. Syndication fees are paid upon funding of the asset and recognized as revenue when the Bank transfers control of the syndicated interest to the co-owner. Servicing fees are paid monthly and are recognized as the related services are performed.
- **Professional fees** – represents financial management consulting and other support services which the Bank provides to its parent SaskCentral (Note 20) and other commercial clients. Revenue is recognized as the services are performed. Fees are billed and paid at the same frequency at which the services are provided.
- **Banking fees** – consists of fees paid by loan and deposit customers for specific banking services. Certain services are ad-hoc in nature with payment and revenue recognition occurring upon completion of the requested task (e.g. account transfer fees). Other fees are provided on an ongoing basis (e.g. standby fees) and are recognized at the same time the services are delivered. Ongoing fees are typically billed and paid at the same frequency that the services are provided.

#### (b) Trust

The Trust segment, a wholly owned subsidiary of the Bank, generates revenue through acting as trustee for personal/corporate trust arrangements and providing estate and registered plan related services:

- **Registered plan fees** – primarily consists of fees paid to the Bank to act as trustee for a registered plan program. These trusteeships often cover an indefinite term. The Bank typically charges an upfront fee which is recognized as revenue upon establishment of the legal trust structure for the registered plan. Thereafter a recurring fee is charged monthly, quarterly or annually to compensate the Bank for continuing to act as trustee and provide the necessary support services to the registered plan program. Revenue is recognized monthly as the related services are performed.
- **Trust fees** – primarily consists of fees paid to the Bank to act as trustee for a custodianship, escrow or other personal/corporate trust arrangement. These arrangements often cover an indefinite term. The Bank typically charges an upfront fee which is recognized as revenue upon establishment of the legal trust structure. Thereafter a recurring fee is charged quarterly or annually to compensate the Bank for continuing to act as trustee and provide the necessary support services to the trust. Revenue is recognized monthly as the related services are performed.
- **Estate fees** – represents fees earned by the Bank for administering estates either as an executor/administrator or through the provision of specific services to a third-party executor/administrator.

When the Bank has been appointed as the executor/administrator, revenue is recognized when the estate is settled and control of the estate assets have transferred to the beneficiaries. Billing and payment occurs either upfront or over time, dependent on the liquidity of the estate. Contract liabilities are recognized when payment from an executor/administrator is received prior to a related performance obligation being satisfied.

When the Bank provides specified services to a third-party executor/administrator, revenue is recognized as the related services are performed.

## 2.8 Leases

The Bank classifies a contract, or component of a contract, as a lease if it conveys a right to control the use of an identifiable asset for a period of time in exchange for consideration.

### (a) As lessee

With the exception of certain short-term and low-value leases, the Bank recognizes a right-of-use asset and lease liability for all leases at commencement.

Lease liabilities are initially measured at the present value of the lease payments due over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, at the Bank's incremental borrowing rate. Lease payments included in the measurement of the lease liability include fixed contractual payments, variable contractual payments based upon a rate or index and any amounts payable with respect to purchase, extension and/or termination options when it is reasonably certain that the Bank will exercise the option. Subsequent to initial recognition, lease liabilities are measured at amortized cost using the effective interest method.

Right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability plus initial direct costs and estimated decommissioning costs, less any lease incentives received. Right-of-use assets are subsequently amortized on a straight-line basis over the term of the lease or the estimated useful life of the asset, whichever is shorter. Right-of-use assets are recognized as part of the Bank's premises and equipment within other assets on the consolidated balance sheet, while lease liabilities are included in other liabilities.

### (b) As lessor

At inception, the Bank classifies a lease which transfers substantially all of the risks and rewards incidental to ownership of the underlying asset as a finance lease. All other leases are classified as operating leases.

When assets are held subject to a finance lease, the Bank recognizes a finance lease asset included in loans receivable in the consolidated balance sheet representing its net investment in the lease. Interest income is recognized over the term of the lease using the implicit interest rate, which reflects a constant rate of return.

For operating leases, the Bank recognizes lease payments received as income on a straight-line basis over the term of the lease.

## 2.9 Premises, Equipment and Other Intangible Assets

Premises and equipment are measured at cost less accumulated amortization and accumulated impairment losses. As no finite useful life for land can be determined, its carrying amount is not amortized. Buildings, building components, building improvements and equipment are carried at acquisition cost less subsequent amortization and impairment losses.

Amortization is recognized on a straight-line basis over the estimated useful life of the item of premises or equipment. The applicable amortization periods are as follows:

| | |
|---|---|
| Buildings | 40 years |
| Building components | 20 years |
| Building improvements | 5 years |
| Equipment | 3 – 10 years |

Amortization methods, residual values and estimates of useful lives are reassessed at each financial year end and adjusted if appropriate.

Other intangible assets consist of acquired and internally developed software. Other intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. The useful lives of intangible assets are assessed to be finite. Amortization is recognized on a straight-line basis over their estimated useful lives of 3 – 10 years.

## 2.10 Goodwill

Goodwill represents the excess of the purchase price over the fair value of the Bank's share of the net identifiable assets acquired in business combinations. The Bank's goodwill is fully attributable to the Commercial and Retail Banking segment.

### 2.11 Income Taxes

Income tax expense comprises current and deferred tax. Current income tax and deferred income tax are recognized in net income except to the extent that it relates to items recognized directly in equity or in OCI. In these cases, the tax impact is also charged directly to equity or OCI.

#### (a) Current income tax

Current income tax is calculated for taxable earnings on the basis of the applicable tax law in the respective jurisdictions in the current year.

#### (b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the consolidated balance sheet and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

The principal temporary differences arise from lease receivables, allowances for credit losses, amortization of premises and equipment, accrued expenses, the effective interest method, and carry-forward amounts.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### 2.12 Employee Benefits

#### (a) Pension benefits

The Bank has a defined contribution pension plan which is a post-employment benefit plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligation to the plan beyond the payment of these contributions.

The contributions are recognized as an employee benefit expense when they are due in respect of service rendered before the end of the reporting period. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the reporting period in which the employees rendered the service are discounted to their present value at the reporting date.

#### (b) Termination benefits

Termination benefits are employee benefits provided when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts an offer of benefits in exchange for the termination of employment. The Bank recognizes termination benefits at the earlier of the date when the Bank can no longer withdraw the offer of those benefits and the date the Bank recognizes costs for a restructuring provision which involves the payment of termination benefits. Benefits falling due more than 12 months after the date of the consolidated balance sheet are discounted to present value.

### 2.13 Provisions

A provision is recognized if, as a result of a past event, the Bank 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.

### 2.14 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Bank has identified its executive leadership team as the chief operating decision-maker.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance.

The Bank has two primary lines of business: (1) Commercial and Retail Banking; and (2) Trust. The Commercial and Retail Banking segment includes residential mortgages, consumer loans, credit card receivables, commercial lending, and equipment financing/leasing activities. Additionally, the Commercial and Retail Banking segment accepts retail and corporate deposits, and provides consulting and treasury services. The Trust segment consists of personal, corporate, and registered plans trust products and services delivered through a wholly owned subsidiary of the Bank.

The Trust segment before the elimination of intercompany transactions and balances has total revenue of $10,064 (2020 - $10,231), net income of $1,049 (2020 - $955) and total assets of $19,123 (2020 - $18,400). The Trust segment does not meet the quantitative thresholds to require separate disclosure.

### 2.15 Assets Under Administration

Assets administered by the Bank on behalf of its clients are recorded separately from the Bank's assets and are not included on the consolidated balance sheet.

### 2.16 Comparatives

Except when a standard or interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. Where retrospective application or restatement applies, comparative figures have been adjusted to conform to the changes in presentation in the current year.

### 2.17 Critical Accounting Estimates and Judgements

The Bank's financial statements are influenced by accounting policies, assumptions, material estimates and management judgement, which necessarily have to be made in the course of preparation of these consolidated financial statements. The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgements for certain items are especially critical for the Bank's results and financial position due to their materiality. Information regarding certain critical accounting estimates and judgements impacted by the COVID-19 pandemic are described in Note 21.

The following accounting estimates and judgements represent key sources of estimation uncertainty to the financial statements:

- **Fair value of financial instruments** – determining the appropriate credit risk adjustments and interest rates for discounting expected future cash flows of financial instruments measured at fair value.
- **Derecognized securitizations** – assessing whether substantially all of the risks and rewards have been transferred and/or whether the Bank continues to control the transferred assets.
- **Non-financial asset impairment testing** – determining the appropriate discount rate and forecasting cash flows used to determine the recoverable amount of a cash-generating unit.
- **Litigation and other contingencies** – determining the probability of a loss arising and reliably estimating the expenditure required to settle current and pending claims.
- **Classification of financial assets** – assessment of the business model within which assets are held and assessment of whether the contractual cash flows are SPPI.
- **Impairment of financial assets** – determining inputs into the ECL model (PD/LGD/EAD), determining when there has been a SICR, and the incorporation of forward-looking financial information into the impairment model (including the selection and forecast of macroeconomic variables).

### 2.18 Changes in Significant Accounting Policies

#### Interest Rate Benchmark Reform

On August 27 2020, the IASB published Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16). The amendments address issues arising from the replacement of the existing interest rate benchmark with alternative interest rates, as well as additional disclosure requirements. The amendments were effective for the Bank's fiscal year beginning January 1, 2021. Adoption of these amendments had no impact on the Bank's consolidated financial statements as the Bank's derivative contracts used Canadian Dollar Offered Rate (CDOR) as the benchmark reference rate, which was not replaced.

### 2.19 Standards, Amendments and Interpretations Issued But Not Yet Adopted

The Bank actively monitors developments and changes in accounting standards from the IASB, as well as requirements from the other regulatory bodies, including OSFI. Currently there are no standards, amendments or interpretations issued by IASB that are expected to have an impact on the Bank's future financial statements.

## 3. SECURITIES

The Bank's debt securities are held within two distinct portfolios. The corporate portfolio consists of debt securities with a variety of terms and conditions held for liquidity management and yield purposes. The securitized portfolio consists of qualified debt securities held in segregated reinvestment accounts to satisfy obligations under certain securitization programs (see Note 4.1.2). The Bank also holds portfolios of equity and corporate debt securities representing longer-term, strategic investments which are measured at FVTPL.

Government securities are comprised of debt securities issued or guaranteed by Canadian federal and provincial governments. Corporate securities are comprised primarily of commercial paper and medium term notes. Asset-backed debt securities are comprised primarily of short-term paper backed by specifically pledged assets.

The maturity dates, fair value, and weighted average effective interest rates for the securities portfolio are as follows:

| | 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Effective Rate | Within 3 Months | Over 3 Months to 1 Year | Over 1 Year to 5 Years | Over 5 Years | No Fixed Maturity | Total |
| **Securities at FVOCI** | | | | | | | |
| **Corporate Portfolio** | | | | | | | |
| Government | | | | | | | |
| Federal | 0.57% | $ 4,490 | $ 31,090 | $ 955,747 | $ 17,216 | $ - | $ 1,008,543 |
| Provincial | 1.14% | 15,032 | 47,797 | 81,035 | - | - | 143,864 |
| Corporate | 1.61% | - | 55,295 | 53,876 | 7,884 | - | 117,055 |
| Asset-backed | 1.51% | - | - | 11,633 | - | - | 11,633 |
| **Securitized Portfolio** | | | | | | | |
| Government | | | | | | | |
| Federal | 0.74% | 62,859 | 31,636 | - | - | - | 94,495 |
| | | $ 82,381 | $ 165,818 | $ 1,102,291 | $ 25,100 | $ - | $ 1,375,590 |
| Accrued interest | | | | | | | 2,088 |
| Total securities at FVOCI | | | | | | | $ 1,377,678 |
| **Securities at FVTPL** | | | | | | | |
| Equities | - | 363 | - | - | 8,130 | 83,006 | 91,499 |
| Corporate debt | 6.9 | - | - | 5,076 | - | - | 5,076 |
| | | | | | | | $ 1,474,253 |

| | 2020 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Effective Rate | | Within 3 Months | | Over 3 Months to 1 Year | | Over 1 Year to 5 Years | | Over 5 Years | | No Fixed Maturity | | Total |
| **Securities at FVOCI** | | | | | | | | | | | | | |
| **Corporate Portfolio** | | | | | | | | | | | | | |
| Government | | | | | | | | | | | | | |
| Federal | 0.78% | $ | 5,200 | $ | 30,225 | $ | 269,528 | $ | - | $ | - | $ | 304,953 |
| Provincial | 1.25% | | - | | 95,811 | | 168,103 | | - | | - | | 263,914 |
| Corporate | 1.50% | | 25,263 | | 64,851 | | 119,897 | | 11,338 | | - | | 221,349 |
| Asset-backed | 0.27% | | 141,857 | | - | | - | | - | | - | | 141,857 |
| **Securitized Portfolio** | | | | | | | | | | | | | |
| Government | | | | | | | | | | | | | |
| Federal | 1.13% | | 124,992 | | 103,040 | | 65,159 | | - | | - | | 293,191 |
| | | $ | 297,312 | $ | 293,927 | $ | 622,687 | $ | 11,338 | $ | - | $ | 1,225,264 |
| Accrued interest | | | | | | | | | | | | | 2,977 |
| Total securities at FVOCI | | | | | | | | | | | | $ | 1,228,241 |
| **Securities at FVTPL** | | | | | | | | | | | | | |
| Equities | - | | - | | - | | - | | 5,384 | | 56,186 | | 61,570 |
| Corporate debt | - | | - | | - | | 4,450 | | - | | - | | 4,450 |
| | | | | | | | | | | | | $ | 1,294,261 |

The following table provides a summary of the unrealized gains and losses of the Bank's securities:

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| **Securities at FVOCI** | | | | | | | | |
| **Corporate Portfolio** | | | | | | | | |
| Government | **$ 1,157,044** | **$ 967** | **$ (4,154)** | **$ 1,153,857** | $ 564,765 | $ 5,876 | $ (110) | $ 570,531 |
| Corporate | **117,274** | **626** | **(294)** | **117,606** | 218,975 | 3,383 | (2) | 222,356 |
| Asset-backed | **11,716** | **-** | **(68)** | **11,648** | 141,867 | - | (10) | 141,857 |
| **Securitized Portfolio** | | | | | | | | |
| Government | **93,140** | **1,427** | **-** | **94,567** | 291,107 | 2,390 | - | 293,497 |
| | **1,379,174** | **3,020** | **(4,516)** | **1,377,678** | 1,216,714 | 11,649 | (122) | 1,228,241 |
| **Securities at FVTPL** | | | | | | | | |
| Equities | **89,639** | **1,928** | **(68)** | **91,499** | 61,264 | 401 | (95) | 61,570 |
| Corporate debt | **5,001** | **75** | **-** | **5,076** | 5,000 | - | (550) | 4,450 |
| | **$ 1,473,814** | **$ 5,023** | **$ (4,584)** | **$ 1,474,253** | $ 1,282,978 | $ 12,050 | $ (767) | $ 1,294,261 |

## 4. TRANSFERS OF FINANCIAL ASSETS

### 4.1 Financial Asset Transfers Not Qualifying for Derecognition

#### 4.1.1 Securities Sale and Repurchase Agreements

The Bank enters into transactions where it sells a security and simultaneously enters into an agreement to repurchase the security at the original sales price plus a small lending premium. The repurchase agreement results in the Bank continuing to be exposed to the risks and rewards of the asset post-transfer and therefore it continues to be recognized within securities on the consolidated balance sheet. A corresponding liability equal to the sales proceeds received is then recognized within loans and notes payable (see Note 11).

#### 4.1.2 Asset Securitizations

The Bank periodically securitizes groups of assets by selling them to independent structured entities. As part of these transactions, the Bank generally retains an interest in the securitized assets, such as servicing rights and various forms of recourse including rights to excess spread and cash reserves. When substantially all of the risks and rewards of ownership of the assets have not been transferred during a securitization transaction, the transaction is not accounted for as a sale and the assets remain on the consolidated balance sheet of the Bank. At the time of the transaction, the securitized borrowings are recognized as securitization liabilities on the consolidated balance sheet. The following paragraphs provide an overview of the Bank's major on-balance sheet securitization programs:

National Housing Act Mortgage-Backed Securities and Canada Mortgage Bond programs

The Bank participates in the Canada Mortgage and Housing Corporation ("CMHC") sponsored National Housing Act Mortgage-Backed Securities ("NHA MBS") program where the Bank assigns all legal rights, interest and title in certain insured residential mortgages to CMHC in exchange for NHA MBS certificates. As the Bank continues to be exposed to substantially all of the risks and rewards of ownership of the original mortgages, the Bank has determined that the assignment of the mortgages does not constitute a transfer. Therefore, the Bank continues to recognize the assets as loans within residential mortgages on the consolidated balance sheet.

Subsequently the Bank may sell its NHA MBS certificates to third parties or under the Canada Mortgage Bond ("CMB") program to Canada Housing Trust ("CHT"), a CMHC sponsored trust. The securitized mortgages are subject to prepayment, in full or in part, and thus the future cash flows related to the transferred assets are uncertain including the amount of prepayment penalties paid by the borrower. The Bank remains exposed to this variability through the difference between the return on the insured residential mortgages and the interest and indemnities paid on the related NHA MBS certificates (retained interest). As a result, the sale of the NHA MBS certificates does not transfer substantially all of the risks and rewards of ownership and the underlying mortgages continue to be recognized in the consolidated balance sheet with matching securitization liabilities being established based on the proceeds received on the date of the transfer.

As part of a CMB transaction, the Bank may enter into a total return swap with highly rated counterparties, exchanging the cash flows of the CMB for those of the NHA MBS certificates transferred to CHT. Any excess or shortfall in these cash flows is absorbed by the Bank. The total return swaps are not recognized at fair value in the Bank's consolidated balance sheet as the risks and rewards of these derivatives are captured through the continued recognition of the mortgages and the associated securitization liabilities. Accordingly, the total return swaps are recognized on an accrual basis and are not fair valued through the consolidated statement of income.

Securitization obligations under the CMB program where the Bank has entered into a total return swap are non-amortizing liabilities with fixed maturity dates. Principal payments collected from the mortgages underlying the securitized NHA MBS certificates are transferred to CHT on a monthly basis where they are held and invested in eligible securities until the maturity of the CMB. To the extent that these eligible securities are not the Bank's own issued NHA MBS certificates, the investments are recognized on the Bank's consolidated balance sheet within securities.

In the case of NHA MBS certificates sold to third parties, including sales to CHT under the CMB program where the Bank has not entered into a total return swap, as scheduled and unscheduled payments are received, the cash flows are ultimately transferred to the holders of the

NHA MBS certificates and the securitization liabilities are reduced accordingly.

Multi-Seller Conduit

The Bank sells non-insured residential mortgage loans to an intermediate multi-seller structured entity established for the limited purpose of securitization activities. The intermediate multi-seller structured entity funds such purchases through the issuance of interest bearing notes. Although the Bank has transferred all legal right, title and interest in the mortgages to the structured entity, the Bank also provides a limited financial guarantee in the form of a cash reserve. Through this credit enhancement, the Bank retains substantially all of the risks and rewards of the transferred assets and consequently the mortgage loans do not qualify for derecognition. The structured entity has no recourse to the other assets of the Bank in the event of failure of debtors to pay when due. The proceeds received from the sale of the mortgage loans are recorded as a securitization liability on the consolidated balance sheet.

Securitized assets not qualifying for derecognition and associated securitization liabilities

The following table presents the carrying value and fair value of the financial assets transferred by the Bank under these programs that have not been derecognized and the related securitization obligations recognized on the consolidated balance sheet:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | **Carrying Value** | **Fair Value** |
| Securitized Assets | | | | |
| Cash reserve related to Multi-Seller Conduit | **$ 3,491** | **$ 3,491** | $ 3,491 | $ 3,491 |
| Securities – securitized portfolio (Note 3) | **94,567** | **94,567** | 293,497 | 293,497 |
| Residential mortgages | **3,773,020** | **3,767,942** | 4,409,288 | 4,494,674 |
| | **3,871,078** | **3,866,000** | 4,706,276 | 4,791,662 |
| Securitization Liabilities | | | | |
| Securitization obligations under the CMB program[1] | **297,133** | **297,372** | 998,461 | 1,009,317 |
| Securitization obligations under the NHA MBS program[2] | **3,121,098** | **3,094,684** | 2,859,813 | 2,896,723 |
| Securitization obligations to Multi-Seller Conduit[3] | **21,478** | **21,418** | 63,409 | 64,177 |
| | **3,439,709** | **3,413,474** | 3,921,683 | 3,970,217 |
| Net position | **$ 431,369** | **$ 452,526** | $ 784,593 | $ 821,444 |

(1) Securitization obligations under the CMB program have a weighted average interest rate of 1.87% (2020 – 1.45%) and include only those CMB securitizations subject to a total return swap.

(2) Securitization obligations under the NHA MBS program have a weighted average interest rate of 1.12% (2020 – 1.33%) and include CMB securitizations which are not subject to a total return swap.

(3) The interest rate related to the securitization obligations to Multi-Seller Conduits corresponds to the rate of the asset-backed commercial paper issued by the conduit, plus related program fees.

The Bank also retains certain amounts of its issued NHA MBS certificates as part of its liquidity management strategy. As at December 31, 2021 residential mortgages of $454,115 (2020 - $813,439) with a fair value of $450,214 (2020 - $819,222) were assigned to NHA MBS certificates and retained by the Bank. These unsold NHA MBS certificates are reported in retail loans in the consolidated balance sheet.

## 4.2 Derecognized Financial Asset Transfers

### 4.2.1 Loan Sales and Syndications

The Bank sells co-ownership interests from select portfolios of on-balance sheet loans and syndicates certain commercial loan commitments while retaining servicing rights. The investors have no recourse against the Bank for any credit or fair value losses on the transferred assets, which results in substantially all of the risks and rewards being transferred. The Bank has therefore removed the transferred assets from its consolidated balance sheet.

Under the servicing arrangements, the Bank collects the cash flows of the transferred assets on behalf of the credit union investors in return for a fee that is expected to compensate the Bank adequately for servicing the related assets. Consequently, the Bank accounts for the servicing arrangements as executory contracts and has not recognized a servicing asset or liability in the consolidated balance sheet. The servicing fees are based on a fixed percentage of the remaining principal balance of the transferred assets and are included within fee-for-service income on the consolidated statement of income net of direct servicing costs incurred.

The following tables provide quantitative information about these derecognized loan sales/syndications and the Bank's continuing involvement during the year:

| | 2021 | | |
|---|---|---|---|
| | **Retail Loans** | **Commercial Loans** | **Total** |
| **Sales/Syndication Activity** | | | |
| Notional amount of undrawn commitments syndicated during the year | **$ -** | **$ 225,875** | **$ 225,875** |
| Carrying value of loans sold and derecognized during the year | **58,200** | **2,064** | **60,264** |
| Gain on loans sold and derecognized during the year (Note 15) | **236** | **35** | **271** |
| **Continuing Involvement** | | | |
| Outstanding principal balance of derecognized loans subject to servicing arrangements at year end | **59,001** | **793,211** | **852,212** |
| Cumulative income earned on derecognized loans during the year[1] | **117** | **1,509** | **1,626** |

[1] Consists of net servicing fees included in fee-for-service income on the consolidated income statement.

| | 2020 | | |
|---|---|---|---|
| | **Retail Loans** | **Commercial Loans** | **Total** |
| **Sales/Syndication Activity** | | | |
| Notional amount of commitments syndicated during the year | $ - | $ 211,375 | $ 211,375 |
| Carrying value of loans sold and derecognized during the year | 124,634 | 61,992 | 186,626 |
| Gain on loans sold and derecognized during the year | 1,479 | 1,471 | 2,950 |
| **Continuing Involvement** | | | |
| Outstanding principal balance of derecognized loans subject to servicing arrangements at year end | 18,023 | 812,987 | 831,010 |
| Cumulative income earned on derecognized loans during the year[1] | 374 | 1,186 | 1,560 |

[1] Consists of net servicing fees included in fee-for-service income on the consolidated income statement.

### 4.2.2 Asset Securitizations

Certain NHA MBS/CMB securitization transactions undertaken by the Bank qualify for derecognition when one of the following conditions are met:

- The Bank subsequently enters into an agreement to transfer its right to the excess spread to a third party;
- The Bank simultaneously enters into a derivative contract which transfers the residual prepayment risk of the mortgages to a third party; or
- The terms and conditions of the transferred assets are such that they are substantively risk free and the Bank has transferred control of these assets.

When the Bank has transferred its right to the excess spread, its continuing involvement is limited to servicing the transferred mortgages for which it receives a fixed monthly fee. The fixed fee provides adequate compensation for the cost of servicing and as such, no servicing asset or liability is recognized. When a portion of the transfer price is payable in installments, a long-term interest bearing receivable is recognized in other securitization assets in the consolidated balance sheet.

For all other derecognized securitizations, the Bank's continuing involvement consists of a retained interest asset representing its right to the excess spread and a servicing liability for the future cost of servicing the transferred assets.

The following tables provides quantitative information about these derecognized securitization activities and the Bank's continuing involvement during the year:

| | 2021 | 2020 |
|---|---|---|
| **Securitization Activity** | | |
| Carrying value of mortgages derecognized during the year | **$ 247,451** | $ 647,990 |
| Gain on sale of mortgages during the year (Note 15) | **1,438** | 5,838 |
| **Continuing Involvement** | | |
| Carrying value of retained interests | **85,784** | 94,277 |
| Carrying value of servicing liabilities (Note 12) | **14,495** | 15,864 |
| Outstanding principal balance of derecognized loans at year end | **2,948,946** | 2,806,983 |
| Cumulative income earned on derecognized loans during the year | **1,788** | 1,264 |

The following table provides the expected undiscounted cash flows payable to the NHA MBS holders on the Bank's securitization activities and transfers that are derecognized in their entirety:

| | MBS Liabilities |
|---|---|
| 2022 | **$ 73,287** |
| 2023 | **112,465** |
| 2024 | **275,813** |
| 2025 | **393,676** |
| 2026 | **481,137** |
| Thereafter | **1,612,568** |
| | **$ 2,948,946** |

## 5. DERIVATIVE ASSETS AND LIABILITIES

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity instrument or index. Derivative contracts are expressed in notional amounts. The notional amounts, which are off-balance sheet, do not represent amounts exchanged and, thus, are not a measure of the Bank's exposure through the use of derivatives. The notional amount is the reference amount used to determine the payment required by contract and is a common measure of business volume.

Swaps are contractual agreements to exchange a series of cash flows based on agreed upon rates to a notional amount. Interest rate swaps are used to manage exposure to interest rate risk by modifying the repricing or interest rate characteristics of assets and liabilities. Exposure is managed through the exchange of fixed and floating interest rate payments based on notional amounts.

Forward rate contracts are used to determine the rate of interest to be paid or received beginning at a future date. A forward rate agreement manages the risk of fluctuating market interest rates by locking in a current interest rate for a transaction that will take place in the future. Payment based on a notional amount is paid or received once at maturity.

Foreign exchange contracts are contractual obligations to buy or sell one currency against another, for settlement on the day the contract expires. A foreign exchange contract manages the risk of fluctuating exchange rates by locking in a current price for a transaction that will take place in the future. Foreign exchange exposure is managed through entering into foreign exchange forward contracts.

| | 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Notional Amount by Term to Maturity | | | | | Fair Value | |
| | Within 3 Months | Over 3 Months to 1 Year | Over 1 Year to 5 Years | Over 5 Years | Total | Asset | Liability |
| **Asset / Liability Management** | | | | | | | |
| Interest rate swaps | $ 5,000 | $ 376 | $ 23,578 | $ - | $ 28,954 | $ 22 | $ 687 |
| Forward rate contracts | 70,000 | - | - | - | 70,000 | - | 710 |
| Foreign exchange contracts | - | 4,801 | - | - | 4,801 | - | 2 |
| | 75,000 | 5,177 | 23,578 | - | 103,755 | 22 | 1,399 |
| **Designated in Fair Value Hedges** | | | | | | | |
| Interest rate swaps | - | - | 100,135 | - | 100,135 | 1,380 | 207 |
| **Designated in Cash Flow Hedges** | | | | | | | |
| Forward rate contracts | 38,196 | - | - | - | 38,196 | 67 | - |
| **As Intermediary** | | | | | | | |
| Interest rate swaps | - | 107,066 | 296,470 | 105,094 | 508,630 | 5,282 | 5,024 |
| Forward rate contracts | 12,000 | 8,000 | - | 9,910 | 29,910 | 103 | 103 |
| Foreign exchange contracts | 14,288 | 39,328 | - | - | 53,616 | 362 | 342 |
| | 26,288 | 154,394 | 296,470 | 115,004 | 592,156 | 5,747 | 5,469 |
| | $ 139,484 | $ 159,571 | $ 420,183 | $ 115,004 | $ 834,242 | $ 7,216 | $ 7,075 |

| | 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Notional Amount by Term to Maturity | | | | | Fair Value | |
| | Within 3 Months | Over 3 Months to 1 Year | Over 1 Year to 5 Years | Over 5 Years | Total | Asset | Liability |
| **Asset / Liability Management** | | | | | | | |
| Interest rate swaps | $ 15,000 | $ 15,000 | $ 36,597 | $ - | $ 66,597 | $ 73 | $ 2,564 |
| **Designated in Fair Value Hedges** | | | | | | | |
| Interest rate swaps | - | - | 10,000 | - | 10,000 | 401 | 15 |
| **Designated in Cash Flow Hedges** | | | | | | | |
| Forward rate contracts | 104,600 | 60,600 | - | - | 165,200 | - | 395 |
| **As Intermediary** | | | | | | | |
| Interest rate swaps | 71,757 | 314,389 | 427,514 | 96,032 | 909,692 | 13,471 | 13,262 |
| Forward rate contracts | - | - | 11,078 | 10,590 | 21,668 | 788 | 780 |
| Foreign exchange contracts | 19,847 | 20,713 | - | - | 40,560 | 1,144 | 1,134 |
| | 91,604 | 335,102 | 438,592 | 106,622 | 971,920 | 15,403 | 15,176 |
| | $ 211,204 | $ 410,702 | $ 485,189 | $ 106,622 | $ 1,213,717 | $ 15,877 | $ 18,150 |

Derivative assets and liabilities are expected to be realized in the following periods:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Asset | Liability | Asset | Liability |
| Within 12 months | $ 2,799 | $ 3,986 | $ 8,250 | $ 9,689 |
| After 12 months | 4,417 | 3,089 | 7,627 | 8,461 |
| | $ 7,216 | $ 7,075 | $ 15,877 | $ 18,150 |

### Results of hedge activities

The Bank uses forward rate agreements to hedge the variability in cash flows related to the issuance of obligations under the CMB and NHA MBS programs. Interest spreads are exposed to potential changes in interest rates from the time the commitment is made to fund the residential mortgages through to the actual funding date of the residential mortgages and to the ultimate funding of the obligation under the CMB and NHA MBS programs. Thus the forward rate agreement reduces the impact of interest rate changes on the interest spread between the residential mortgages to be securitized and the securitization liabilities. The Bank has designated this hedging relationship as a cash flow hedge and the realized gains and losses are reclassified from OCI to net income over the period of the obligation under the securitization program.

The Bank uses interest rate swaps to hedge interest rate risk related to certain fixed rate deposits or retail loans. The Bank enters into interest rate swaps which result in fair value changes of the hedging instruments offsetting, within a reasonable range, changes in the fair value of the hedged item(s) resulting from changes in the interest rate environment. The Bank has designated this hedging relationship as a fair value hedge and the net difference between the fair value changes of the hedging instrument and the hedged risk component of hedged item(s) is recorded as the ineffective portion of fair value hedges in gain on financial instruments in the statement of income.

| | | 2021 | | 2020 |
|---|---|---|---|---|
| **Cash Flow Hedges** | | | | |
| Effective portion – net gains (losses) recorded in OCI during the year | $ | **2,780** | $ | (7,121) |
| Reclassification of losses to net income during the year | | **91** | | 391 |
| **Fair Value Hedges** | | | | |
| Ineffective portion recorded in gain on financial instruments (Note 15) | | **97** | | (56) |
| Unrealized losses on derivatives related to hedged risk components | | **1,308** | | (362) |

## 6. LOANS RECEIVABLE

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Value | Allowance for Credit Losses[2] | Total | Gross Carrying Value | Allowance for Credit Losses[2] | Total |
| **Loans at Amortized Cost** | | | | | | |
| **Retail Loans** | | | | | | |
| Residential mortgages[1] | **$ 5,367,040** | **$ (3,268)** | **$ 5,363,772** | $ 6,655,105 | $ (4,141) | $ 6,650,964 |
| Consumer loans | **565,740** | **(9,057)** | **556,683** | 527,116 | (8,481) | 518,635 |
| Credit card receivables | **96,303** | **(2,151)** | **94,152** | - | - | - |
| **Commercial Loans** | | | | | | |
| Commercial mortgages and loans | **725,747** | **(6,287)** | **719,460** | 700,115 | (21,050) | 679,065 |
| Commercial leases | **230,104** | **(1,646)** | **228,458** | 199,662 | (1,060) | 198,602 |
| Total loans at amortized cost | **$ 6,984,934** | **$ (22,409)** | **$ 6,962,525** | $ 8,081,998 | $ (34,732) | $ 8,047,266 |
| **Loans at FVOCI** | | | | | | |
| **Retail Loans** | | | | | | |
| Residential mortgages | | | **2,115,672** | | | 781,575 |
| | | | **$ 9,078,197** | | | $ 8,828,841 |

[1] Residential mortgages include $435 (2020 - $273) of property held for resale.

[2] See Note 7 for allowance for credit losses disclosures.

The Bank's loans are principally held for the purpose of collecting the contractual cash flows with the following exceptions.

For residential mortgages, the Bank holds two separately identifiable sub-portfolios from which it both sells and holds a significant portion of newly originated assets. As the business model for these portfolios are managed to generate cash flows through both sales and collection of the contractual cash flows, the loans are classified as at FVOCI.

For commercial mortgages and loans, the Bank's overall business model is such that it issues loan commitments with the intent of selling down a pre-determined amount prior to funding in order to meet the established credit risk policy limits. The Bank's credit risk policy creates a clear line of demarcation for each originated commercial asset resulting in the recognition of two distinct sub-portfolios:

- A sub-portfolio which contains the portion of loan opportunities the Bank intends to sell which are measured at FVTPL. As these sales occur prior to funding of the loan, the Bank does not recognize loans at FVTPL in its consolidated balance sheet. Instead, the portion of the commitment designated for sale is measured at FVTPL up to the date of transfer; and
- A sub-portfolio which contains the portion of loans the Bank intends to hold on-balance sheet which are measured at amortized cost.

The following table provides information on the unrealized gains and losses for the Bank's loans measured at fair value:

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Unrealized | | | | Unrealized | | |
| | Amortized Cost | Gains | Losses | Fair Value | Amortized Cost | Gains | Losses | Fair Value |
| **Loans at FVOCI** | | | | | | | | |
| Residential mortgages | $ 2,120,641 | $ 3,340 | $ (8,309) | $ 2,115,672 | $ 773,545 | $ 8,484 | $ (454) | $ 78,575 |

The maturity dates and weighted average effective interest rate information for the loans portfolio are as follows:

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Effective Rate | Within 3 Months | Over 3 Months to 1 Year | Over 1 Year to 5 Years | Over 5 Years | Total |
| **Loans at Amortized Cost** | | | | | | |
| Residential mortgages | 2.47% | $ 762,382 | $ 832,641 | $ 3,763,208 | $ 1,582 | $ 5,359,813 |
| Consumer loans | 9.13% | 4,039 | 29,232 | 295,667 | 235,229 | 564,167 |
| Credit card receivables | 21.12% | 96,303 | - | - | - | 96,303 |
| Commercial mortgages and loans | 4.18% | 21,760 | 235,514 | 404,136 | 62,329 | 723,739 |
| Commercial leases | 5.17% | 1,216 | 7,865 | 201,865 | 19,113 | 230,059 |
| **Loans at FVOCI** | | | | | | |
| Residential mortgages | 3.46% | 239,174 | 874,037 | 969,621 | 1,217 | 2,084,049 |
| | | $ 1,124,874 | $ 1,979,289 | $ 5,634,497 | $ 319,470 | $ 9,058,130 |
| Accrued interest | | | | | | 42,476 |
| Total gross carrying value | | | | | | $ 9,100,606 |

| | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Effective Rate | Within 3 Months | Over 3 Months to 1 Year | Over 1 Year to 5 Years | Over 5 Years | Total |
| **Loans at Amortized Cost** | | | | | | |
| Residential mortgages | 2.75% | $ 370,092 | $ 1,609,869 | $ 4,664,780 | $ 3,463 | $ 6,648,204 |
| Consumer loans | 9.03% | 1,772 | 26,809 | 298,336 | 198,643 | 525,560 |
| Commercial mortgages and loans | 4.28% | 78,709 | 176,505 | 428,867 | 12,959 | 697,040 |
| Commercial leases | 4.91% | 1,089 | 12,811 | 159,658 | 26,079 | 199,637 |
| **Loans at FVOCI** | | | | | | |
| Residential mortgages | 4.67% | 103,403 | 453,245 | 201,592 | - | 758,240 |
| | | $ 555,065 | $ 2,279,239 | $ 5,753,233 | $ 241,144 | $ 8,828,681 |
| Accrued interest | | | | | | 34,892 |
| Total gross carrying value | | | | | | $ 8,863,573 |

### Commercial leases

The carrying value of finance leases of certain commercial equipment where the Bank is the lessor includes the following:

| | 2021 | 2020 |
|---|---|---|
| Minimum lease payments receivable: | | |
| Not later than one year | $ **9,415** | $ 14,160 |
| Between one and five years | **220,994** | 174,225 |
| Later than five years | **22,109** | 30,614 |
| | **252,518** | 218,999 |
| Unearned finance income on commercial leases | **(22,414)** | (19,337) |
| Gross commercial leases receivable | $ **230,104** | $ 199,662 |

## 7. ALLOWANCE AND NET PROVISION FOR CREDIT LOSSES

The following table summarizes the net provision for credit losses and recoveries included in the consolidated statement of income:

| | 2021 | 2020 |
|---|---|---|
| Residential mortgages | $ **1,376** | $ 1,556 |
| Consumer loans | **1,717** | 4,212 |
| Credit card receivables | **2,401** | - |
| Commercial mortgages and loans | **(6,375)** | 5,188 |
| Commercial leases | **1,169** | (109) |
| Securities | **(34)** | 281 |
| **Gross provision for credit losses** | **254** | 11,128 |
| Impact of financial guarantees | **(1,963)** | (2,234) |
| **Net provision for credit (recoveries) losses** | $ **(1,709)** | $ 8,894 |

The following tables summarize the allowance for credit losses for each of the Bank's loan portfolios and the changes to the allowance for credit losses for the Bank's loans and undrawn commitments on a total portfolio basis:

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Residential mortgages | **$ 1,713** | **$ 809** | **$ 746** | **$ 3,268** | $ 2,743 | $ 717 | $ 681 | $ 4,141 |
| Consumer loans | **6,969** | **1,548** | **540** | **9,057** | 6,312 | 1,433 | 736 | 8,481 |
| Credit card receivables | **890** | **182** | **1,079** | **2,151** | - | - | - | - |
| Commercial mortgages and loans | **133** | **4,929** | **1,225** | **6,287** | 1,120 | 7,282 | 12,648 | 21,050 |
| Commercial leases | **403** | **426** | **817** | **1,646** | 304 | 423 | 333 | 1,060 |
| **Balance, end of year** | **$ 10,108** | **$ 7,894** | **$ 4,407** | **$ 22,409** | $ 10,479 | $ 9,855 | $ 14,398 | $ 34,732 |

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | Stage 1 | Stage 2 | Stage 3 | Total |
| **Total Loans Allowance** | | | | | | | | |
| Balance, beginning of year | **$12,193** | **$10,497** | **$14,770** | **$37,460** | $ 9,845 | $ 8,119 | $11,336 | $29,300 |
| Provision for credit losses | | | | | | | | |
| Re-measurement | **(677)** | **2,856** | **5,550** | **7,729** | 3,645 | 8,418 | 5,256 | 17,319 |
| Newly originated or purchased assets | **7,151** | **–** | **–** | **7,151** | 8,031 | – | – | 8,031 |
| Derecognized financial assets and maturities | **(3,070)** | **(2,642)** | **(6,326)** | **(12,038)** | (3,946) | (7,950) | (2,655) | (14,551) |
| Changes in models and methodologies | **(549)** | **(2,005)** | **-** | **(2,554)** | 37 | 11 | - | 48 |
| Transfer to (from): | | | | | | | | |
| Stage 1 | **(2,475)** | **2,031** | **444** | **–** | (7,304) | 6,675 | 629 | – |
| Stage 2 | **401** | **(1,756)** | **1,355** | **–** | 1,885 | (4,832) | 2,947 | – |
| Stage 3 | **2** | **113** | **(115)** | **–** | - | 56 | (56) | – |
| Total provision for credit losses | **783** | **(1,403)** | **908** | **288** | 2,348 | 2,378 | 6,121 | 10,847 |
| Write-offs | **-** | **-** | **(12,381)** | **(12,381)** | - | - | (4,991) | (4,991) |
| Recoveries | **-** | **-** | **1,677** | **1,677** | - | - | 2,304 | 2,304 |
| Total allowance for credit (recoveries) losses | **12,976** | **9,094** | **4,974** | **27,044** | 12,193 | 10,497 | 14,770 | 37,460 |
| Less: reserve for FVOCI mortgages | **(2,455)** | **(836)** | **(567)** | **(3,858)** | (942) | (529) | (372) | (1,843) |
| Less: allowance for undrawn commitments (Note 12) | **(413)** | **(364)** | **-** | **(777)** | (772) | (113) | - | (885) |
| **Balance, end of year** | **$10,108** | **$ 7,894** | **$ 4,407** | **$22,409** | $10,479 | $ 9,855 | $14,398 | $34,732 |

The following tables present the changes to the allowance for credit losses for the Bank's loans and undrawn commitments:

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Residential Mortgages** | | | | | | | | |
| Balance, beginning of year | **$ 3,772** | **$ 1,246** | **$ 1,053** | **$ 6,071** | $ 2,859 | $ 998 | $ 961 | $ 4,818 |
| Provision for credit losses | | | | | | | | |
| Re-measurement | **(87)** | **670** | **1,357** | **1,940** | 963 | 630 | 1,234 | 2,827 |
| Newly originated or purchased assets | **1,943** | **-** | **-** | **1,943** | 2,658 | - | - | 2,658 |
| Derecognized financial assets and maturities | **(922)** | **(596)** | **(963)** | **(2,481)** | (1,926) | (817) | (999) | (3,742) |
| Changes in models and methodologies | **(21)** | **(5)** | **-** | **(26)** | 106 | (293) | – | (187) |
| Transfer to (from): | | | | | | | | |
| Stage 1 | **(462)** | **459** | **3** | **-** | (888) | 761 | 127 | - |
| Stage 2 | **1** | **(204)** | **203** | **-** | - | (91) | 91 | - |
| Stage 3 | **-** | **75** | **(75)** | **-** | - | 58 | (58) | - |
| Total provision for credit losses | **452** | **399** | **525** | **1,376** | 913 | 248 | 395 | 1,556 |
| Write-offs | **-** | **-** | **(277)** | **(277)** | - | - | (333) | (333) |
| Recoveries | **-** | **-** | **12** | **12** | - | - | 30 | 30 |
| Total allowance for credit losses | **4,224** | **1,645** | **1,313** | **7,182** | 3,772 | 1,246 | 1,053 | 6,071 |
| Less: reserve for FVOCI mortgages | **(2,455)** | **(836)** | **(567)** | **(3,858)** | (942) | (529) | (372) | (1,843) |
| Less: allowance for undrawn commitments | **(56)** | **-** | **-** | **(56)** | (87) | - | - | (87) |
| **Balance, end of year** | **$ 1,713** | **$ 809** | **$ 746** | **$ 3,268** | $ 2,743 | $ 717 | $ 681 | $ 4,141 |

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Consumer Loans** | | | | | | | | |
| Balance, beginning of year | **$ 6,480** | **$ 1,433** | **$ 736** | **$ 8,649** | $ 4,701 | $ 1,597 | $ 195 | $ 6,493 |
| Provision for credit losses | | | | | | | | |
| Re-measurement | **67** | **908** | **2,192** | **3,167** | 1,264 | 1,245 | 1,769 | 4,278 |
| Newly originated or purchased assets | **3,599** | **-** | **-** | **3,599** | 3,613 | | - | 3,613 |
| Derecognized financial assets and maturities | **(1,838)** | **(605)** | **(2,635)** | **(5,078)** | (1,539) | (1,736) | (644) | (3,919) |
| Changes in models and methodologies | **17** | **12** | **-** | **29** | 156 | 84 | - | 240 |
| Transfer to (from): | | | | | | | | |
| Stage 1 | **(1,145)** | **757** | **388** | **-** | (1,715) | 1,213 | 502 | - |
| Stage 2 | **-** | **(991)** | **991** | **-** | - | (970) | 970 | - |
| Stage 3 | **-** | **36** | **(36)** | **-** | - | - | - | - |
| Total provision for credit (recoveries) losses | **700** | **117** | **900** | **1,717** | 1,779 | (164) | 2,597 | 4,212 |
| Write-offs | **-** | **-** | **(2,494)** | **(2,494)** | - | - | (3,070) | (3,070) |
| Recoveries | **-** | **-** | **1,398** | **1,398** | - | - | 1,014 | 1,014 |
| Total allowance for credit losses | **7,180** | **1,550** | **540** | **9,270** | 6,480 | 1,433 | 736 | 8,649 |
| Less: allowance for undrawn commitments | **(211)** | **(2)** | **-** | **(213)** | (168) | - | - | (168) |
| **Balance, end of year** | **$ 6,969** | **$ 1,548** | **$ 540** | **$ 9,057** | $ 6,312 | $ 1,433 | $ 736 | $ 8,481 |

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Credit Card Receivables** | | | | | | | | |
| Balance, beginning of year | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Provision for credit losses | | | | | | | | |
| Re-measurement | 501 | 12 | 1,389 | 1,902 | - | - | - | - |
| Newly originated or purchased assets | 725 | - | - | 725 | - | - | - | - |
| Derecognized financial assets and maturities | (56) | (20) | (150) | (226) | - | - | - | - |
| Changes in models and methodologies | - | - | - | - | - | - | - | - |
| Transfer to (from): | | | | | | | | |
| Stage 1 | (279) | 227 | 52 | - | - | - | - | - |
| Stage 2 | 13 | (37) | 24 | - | - | - | - | - |
| Stage 3 | 2 | - | (2) | - | - | - | - | - |
| Total provision for credit losses | 906 | 182 | 1,313 | 2,401 | - | - | - | - |
| Write-offs | - | - | (234) | (234) | - | - | - | - |
| Recoveries | - | - | - | - | - | - | - | - |
| Total allowance for credit losses | 906 | 182 | 1,079 | 2,167 | - | - | - | - |
| Less: allowance for undrawn commitments | (16) | - | - | (16) | - | - | - | - |
| **Balance, end of year** | **$ 890** | **$ 182** | **$ 1,079** | **$ 2,151** | $ - | $ - | $ - | $ - |

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Commercial Mortgages and Loans** | | | | | | | | |
| Balance, beginning of year | $ 1,637 | $ 7,395 | $12,648 | $21,680 | $ 1,994 | $ 5,117 | $ 9,358 | $16,469 |
| Provision for credit losses | | | | | | | | |
| Re-measurement | (1,224) | 1,008 | (847) | (1,063) | 1,377 | 6,589 | 1,391 | 9,357 |
| Newly originated or purchased assets | 703 | - | - | 703 | 1,421 | - | - | 1,421 |
| Derecognized financial assets and maturities | (220) | (1,207) | (2,050) | (3,477) | (400) | (5,255) | - | (5,655) |
| Changes in models and methodologies | (538) | (2,000) | - | (2,538) | (182) | 247 | - | 65 |
| Transfer to (from): | | | | | | | | |
| Stage 1 | (479) | 479 | - | - | (4,454) | 4,454 | - | - |
| Stage 2 | 384 | (384) | - | - | 1,881 | (3,755) | 1,874 | - |
| Stage 3 | - | - | - | - | - | (2) | 2 | - |
| Total provision for credit (recoveries) losses | (1,374) | (2,104) | (2,897) | (6,375) | (357) | 2,278 | 3,267 | 5,188 |
| Write-offs | - | - | (8,643) | (8,643) | - | - | (35) | (35) |
| Recoveries | - | - | 117 | 117 | - | - | 58 | 58 |
| Total allowance for credit losses | 263 | 5,291 | 1,225 | 6,779 | 1,637 | 7,395 | 12,648 | 21,680 |
| Less: allowance for undrawn commitments | (130) | (362) | - | (492) | (517) | (113) | - | (630) |
| **Balance, end of year** | **$ 133** | **$ 4,929** | **$ 1,225** | **$ 6,287** | $ 1,120 | $ 7,282 | $12,648 | $21,050 |

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Commercial Leases** | | | | | | | | |
| Balance, beginning of year | $ 304 | $ 423 | $ 333 | $ 1,060 | $ 291 | $ 407 | $ 822 | $ 1,520 |
| Provision for credit losses | | | | | | | | |
| Re-measurement | 66 | 258 | 1,459 | 1,783 | 41 | (46) | 862 | 857 |
| Newly originated or purchased assets | 181 | – | – | 181 | 339 | - | - | 339 |
| Derecognized financial assets and maturities | (34) | (214) | (528) | (776) | (81) | (142) | (1,012) | (1,235) |
| Changes in models and methodologies | (7) | (12) | – | (19) | (43) | (27) | - | (70) |
| Transfer to (from): | | | | | | | | |
| Stage 1 | (110) | 109 | 1 | – | (247) | 247 | - | - |
| Stage 2 | 3 | (140) | 137 | – | 4 | (16) | 12 | - |
| Stage 3 | - | 2 | (2) | – | - | - | - | - |
| Total provision for credit (recoveries) losses | 99 | 3 | 1,067 | 1,169 | 13 | 16 | (138) | (109) |
| Write-offs | - | - | (733) | (733) | - | - | (1,553) | (1,553) |
| Recoveries | - | - | 150 | 150 | - | - | 1,202 | 1,202 |
| **Balance, end of year** | $ 403 | $ 426 | $ 817 | $ 1,646 | $ 304 | $ 423 | $ 333 | $ 1,060 |

## 8. OTHER ASSETS

| | 2021 | 2020 |
|---|---|---|
| Accounts receivable | $ 11,925 | $ 9,704 |
| Prepaid and deferred costs | 3,175 | 3,334 |
| Premises and equipment | 7,377 | 6,945 |
| Other intangible assets | 8,056 | 5,872 |
| Current income tax assets | 944 | 6,333 |
| Deferred income tax assets (Note 9) | 13,966 | 15,509 |
| | $ 45,443 | $ 47,697 |

Amortization recorded on premises and equipment for the year was $1,013 (2020 - $1,321). Amortization recorded on other intangible assets for the year was $1,263 (2020 - $1,026).

## 9. INCOME TAXES

Income taxes are included in the consolidated statement of income as follows:

| | 2021 | 2020 |
|---|---|---|
| Current income tax expense | | |
| Current tax on income for current year | $ 13,856 | $ 5,389 |
| Current tax from adjustments for prior years | (115) | (66) |
| | 13,741 | 5,323 |
| Deferred income tax (recovery) expense | | |
| Origination and reversal of temporary differences | 2,066 | 4,111 |
| Deferred tax from adjustments for prior years | 55 | (14) |
| Impact of tax rate changes | 1 | 5 |
| | 2,122 | 4,102 |
| | $ 15,863 | $ 9,425 |

Income taxes are included in the consolidated statement of comprehensive income as follows:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| **Other comprehensive income** | | | | |
| Current income tax expense | | | | |
| Net unrealized (losses) gains on FVOCI securities | $ | **(3,334)** | $ | 3,155 |
| Reclassification of gains on FVOCI securities to net income | | **(76)** | | (9) |
| Reclassification of impairment (recoveries) losses on FVOCI securities to net income | | **(9)** | | 76 |
| Net unrealized (losses) gains on FVOCI loans | | **(3,164)** | | 2,495 |
| Reclassification of gains on FVOCI loans to net income | | **(64)** | | (104) |
| Reclassification of impairment losses on FVOCI loans to net income | | **272** | | 3 |
| Net gains (losses) on derivatives designated as cash flow hedges | | **748** | | (1,918) |
| Reclassification of losses on derivatives designated as cash flow hedges to net income | | **24** | | 105 |
| | $ | **(5,603)** | $ | 3,803 |

Reconciliation of income tax expense from operations:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Combined federal and provincial income tax rate applied to income from operations (2021 – 26.9%; 2020 – 26.9%) | $ | **15,853** | $ | 9,374 |
| Income tax expense adjusted for the effect of: | | | | |
| Adjustments related to prior periods | | **(60)** | | (80) |
| Expenses not deductible for tax purposes | | **42** | | 16 |
| Impact of change in tax rates | | **1** | | 5 |
| Other | | **27** | | 110 |
| | $ | **15,863** | $ | 9,425 |

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 26.9% (2020 – 26.9%). The movement in deferred income taxes is as follows:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Balance, beginning of year | $ | **1,381** | $ | 5,483 |
| Recognized in net income | | **(2,122)** | | (4,102) |
| Balance, end of year | $ | **(741)** | $ | 1,381 |

The components of deferred income taxes are as follows:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Deferred income tax assets | | | | |
| Loans | $ | **13,263** | $ | 14,896 |
| Other | | **703** | | 613 |
| | | **13,966** | | 15,509 |
| Deferred income tax liabilities | | | | |
| Securitization activities | | **(13,241)** | | (13,453) |
| Other | | **(1,466)** | | (675) |
| | | **(14,707)** | | (14,128) |
| Net deferred income taxes | $ | **(741)** | $ | 1,381 |

Net deferred income taxes are anticipated to be realized as follows:

| | 2021 | 2020 |
|---|---|---|
| Net deferred income taxes (payable) recoverable | | |
| Within 12 months | $ (3,968) | $ (4,542) |
| After more than 12 months | 3,227 | 5,923 |
| | $ (741) | $ 1,381 |

## 10. DEPOSITS

| | 2021 | 2020 |
|---|---|---|
| Credit union deposits | $ 2,857,335 | $ 2,892,764 |
| Retail deposits | 2,716,495 | 2,858,342 |
| Commercial deposits | 671,595 | 383,076 |
| Capital market deposits | 450,217 | 199,998 |
| | $ 6,695,642 | $ 6,334,180 |

All deposits are recorded at amortized cost. The maturity dates and weighted average interest rates for the Bank's deposits are as follows:

| | 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Effective Rate | On Demand/ Notice | Within 3 Months | Over 3 Months to 1 Year | Over 1 Year to 5 Years | Over 5 Years | Total |
| Credit Union deposits | 0.87% | $ 520,272 | $ 380,446 | $ 839,092 | $ 1,112,545 | $ - | $ 2,852,355 |
| Retail deposits | 1.95% | 280,306 | 152,448 | 926,914 | 1,334,708 | - | 2,694,376 |
| Commercial deposits | 0.81% | 222,249 | 15,873 | 240,294 | 192,537 | - | 670,953 |
| Capital market deposits | 1.24% | - | 199,505 | - | 249,974 | - | 449,479 |
| | | $ 1,022,827 | $ 748,272 | $ 2,006,300 | $ 2,889,764 | $ - | $ 6,667,163 |
| Accrued interest | | | | | | | 28,479 |
| | | | | | | | $ 6,695,642 |

| | 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Effective Rate | On Demand/ Notice | Within 3 Months | Over 3 Months to 1 Year | Over 1 Year to 5 Years | Over 5 Years | Total |
| Credit Union deposits | 0.80% | $ 656,208 | $ 490,320 | $ 803,062 | $ 938,955 | $ - | $ 2,888,545 |
| Retail deposits | 2.22% | 139,692 | 231,321 | 1,030,688 | 1,424,161 | - | 2,825,862 |
| Commercial deposits | 0.92% | 192,600 | 1,124 | 113,623 | 75,443 | - | 382,790 |
| Capital market deposits | 0.96% | - | - | - | 199,719 | - | 199,719 |
| | | $ 988,500 | $ 722,765 | $ 1,947,373 | $ 2,638,278 | $ - | $ 6,296,916 |
| Accrued interest | | | | | | | 37,264 |
| | | | | | | | $ 6,334,180 |

## 11. LOANS AND NOTES PAYABLE

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Lines of credit | $ | - | $ | 265 |
| Notes payable | | **164,259** | | 214,480 |
| Repurchase agreements (Note 4.1.1) | | - | | - |
| | $ | **164,259** | $ | 214,745 |

All loans and notes payable are due within 12 months (2020 – within 12 months).

### Lines of credit

The Bank maintains a $100,000 (2020 - $100,000) line of credit facility with SaskCentral. The line of credit bears interest at prime less 0.50% (2020 – prime less 0.50%) with an effective interest rate at December 31, 2021 of 1.95% (2020 – 1.95%). The line of credit is partially secured by securities or other assets that meet the minimum quality acceptable by SaskCentral. In accordance with the *Clearing and Settlement Agreement* with SaskCentral, SaskCentral may at its sole discretion make advances in excess of the line of credit as an overdraft. Overdrafts bear interest at prime plus 4.00% (2020 – prime plus 4.00%) with an effective interest rate at December 31, 2021 of 6.45% (2020 – 6.45%).

The Bank maintains a $400,000 (2020 - $400,000) Secured Credit Facility with a major Schedule 1 Canadian bank. The facility bears interest at the banker's acceptance rate plus 0.65% (2020 – banker's acceptance rate plus 0.65%) and is secured by insured residential mortgages or other qualified securities.

### Notes payable

Notes payable consists of short-term instruments issued under the Bank's Bearer Deposit Note ("BDN") program. The weighted average effective interest rate of these items is 0.64% at year end (2020 – 0.83%).

### Repurchase agreements

Repurchase agreements represent obligations of the Bank under its various securities sale and repurchase agreements (see Note 4.1.1) utilized for ongoing liquidity management. The Bank had no outstanding repurchase agreements at December 31, 2021. The weighted average effective interest rate on outstanding repurchase agreements at year end was $nil (2020 – $nil).

### Secured Funding Facilities

The Bank has access to two liquidity facilities sponsored by the Government of Canada, namely the Bank of Canada's Standing Term Liquidity Facility and Emergency Lending Assistance facility. The Bank had no outstanding balance (2020 – $nil) on these facilities. The facilities are secured by portfolios of non-mortgage loans, qualifying securities or deposits.

## 12. OTHER LIABILITIES

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Servicing liabilities (Note 4.2.2) | $ | **14,945** | $ | 15,864 |
| Current income tax liabilities | | **120** | | 56 |
| Deferred income tax liabilities (Note 9) | | **14,707** | | 14,128 |
| Allowance for undrawn commitments (Note 7) | | **777** | | 885 |
| Lease liabilities | | **4,902** | | 3,987 |
| | $ | **35,451** | $ | 34,920 |

## 13. SHARE CAPITAL

The Bank is authorized to issue the following classes of shares:

- An unlimited number of voting common shares without par value
- An unlimited number of non-voting Class A preferred shares without par value issuable in series
- An unlimited number of non-voting Class B preferred shares without par value issuable in series

### Common shares

Common shares are non-redeemable and represent the residual claim to the Bank's property upon dissolution. Common shares are entitled to receive dividends as and when declared by the Board subject to the rights of the Class A and Class B preferred shares. Voting privileges are determined on the basis of one vote per share. The transfer of common shares are restricted in that no shareholder is entitled to transfer any common share to any entity without the prior approval of the Board of Directors.

### Class A preferred shares

Class A preferred shares are entitled to preferential dividends as and when declared by the Board. The Class A preferred shares may be issued at any time or from time to time in one or more series provided each series of Class A preferred shares ranks in parity with every other series of Class A preferred shares with respect to dividends and return of capital. Before issuance of a series, the Board shall fix the number of shares that will form such series and determine the designation, rights, privileges, restrictions and conditions specific to that series, subject to any limitations set out in the *Bank Act (Canada)* and the approval of OSFI. The Board has currently approved for issuance two series of Class A preferred shares: Series 1 and Series 2.

Class A - Series 1 preferred shares entitle the holders to an annual, non-cumulative fixed dividend of $0.99 per share, with the dividend rate resetting every five years equal to the Government of Canada five-year bond yield plus 3.59%. The Series 1 dividend rate was last reset January 31, 2021.

Class A – Series 2 preferred shares are entitled to a non-cumulative floating quarterly dividend at a rate equal to the 90-day Canadian treasury bill rate plus 3.59%.

Subject to a minimum amount of shares remaining outstanding in each series, holders of the Class A – Series 1 preferred shares have the right to exchange their shares for an equal amount of Class A – Series 2 preferred shares, or vice-versa, every 5 years following the expiration of the initial period ended January 31, 2021. During the year ended December 31, 2021 holders of 551,000 Class A – Series 1 preferred shares exercised their right to exchange their shares for an equal amount of Class A – Series 2 preferred shares.

The Class A – Series 1 and Series 2 preferred shares are redeemable at the option of the Bank for Twenty Five Dollars ($25.00) per share subject to the approval of OSFI and the requirements of the *Bank Act (Canada)*.

Upon the occurrence of a NVCC trigger event, the Class A – Series 1 and Series 2 preferred shares will be immediately cancelled for no consideration and the stated capital in respect of these classes of shares will immediately be reduced to $nil. From and after such date, the Class A – Series 1 and Series 2 shareholders shall have no right to receive, or assert a claim for any amount in respect of dividends or any payment upon a distribution of assets in the event of the liquidation, dissolution or winding-up of the Bank.

### Class B preferred shares

Class B preferred shares are entitled to preferential dividends as and when declared by the Board. The Class B preferred shares may be issued at any time or from time to time in one or more series provided each series of Class B preferred shares ranks in parity with every other series of Class B preferred shares with respect to dividends and return of capital. Before issuance of a series, the Board shall fix the number of shares that will form such series and determine the designation, rights, privileges, restrictions and conditions specific to that series, subject to any limitations set out in the *Bank Act (Canada)* and the approval of OSFI. There are currently no series of Class B preferred shares approved for issuance.

The following tables summarize the Bank's share capital at year end including total dividends declared during the year:

| | 2021 | | | |
|---|---|---|---|---|
| | Share Capital | | Dividends Declared | |
| | # of Shares | Amount | $/Share | Total |
| Common shares | **9,621,114** | **$ 134,252** | **$ 0.56** | **$ 5,370** |
| Class A preferred shares | | | | |
| Series 1 | **3,888,500** | **97,212** | **$ 0.99** | **3,867** |
| Series 2 | **551,000** | **13,775** | **$ 0.93** | **512** |
| | | **$ 245,239** | | **$ 9,749** |

| | 2020 | | | |
|---|---|---|---|---|
| | Share Capital | | Dividends Declared | |
| | # of Shares | Amount | $/Share | Total |
| Common shares | 9,621,114 | $ 134,252 | $ 0.56 | $ 5,370 |
| Class A preferred shares | | | | |
| Series 1 | 4,439,500 | 110,987 | $ 1.15 | 5,105 |
| | | $ 245,239 | | $ 10,475 |

## 14. FEE-FOR-SERVICE INCOME

| | 2021 | 2020 |
|---|---|---|
| **Commercial and Retail Banking** | | |
| Syndication and servicing fees | **$ 4,092** | $ 4,664 |
| Professional fees | **2,870** | 2,197 |
| Banking fees | **2,177** | 1,262 |
| **Trust** | | |
| Trust fees | **8,300** | 7,867 |
| Estate fees | **794** | 1,327 |
| **Total revenue from contracts with customers** | **18,233** | 17,317 |
| Rental income | **633** | 633 |
| Total fee-for-service income | **$ 18,866** | $ 17,950 |

## 15. GAIN ON FINANCIAL INSTRUMENTS

| | 2021 | 2020 |
|---|---|---|
| **Securities** | | |
| Unrealized and realized gains (losses) on securities at FVTPL | **$ 2,229** | $ (913) |
| Realized gains on securities at FVOCI | **283** | 32 |
| **Loans Receivable** | | |
| Realized gains on loans at amortized cost | **35** | 2,564 |
| Realized gains on loans at FVOCI | **236** | 386 |
| Gain on derecognized securitizations | **1,438** | 5,838 |
| **Derivatives and Hedging Activities** | | |
| Unrealized and realized gains (losses) on derivatives | **53** | (438) |
| Ineffective portion of fair value hedges | **97** | (56) |
| Total gain on financial instruments | **$ 4,371** | $ 7,413 |

## 16. SALARIES AND EMPLOYEE BENEFITS EXPENSE

The Bank provides pension benefits to qualified employees. During the year, the Bank contributed $2,301 (2020 - $2,120) to defined contribution and supplementary employee retirement plans. These costs are included in salaries and employee benefits. As a defined contribution pension plan, the Bank has no future liability or obligation for future contributions to fund benefits to plan members.

## 17. COMMITMENTS AND CONTINGENCIES

### 17.1 Credit Commitments

Loan commitments consist of authorized but undrawn lines of credit and loans, as well as letters of credit. Loan commitments represent a maximum credit exposure to the Bank. If applicable, the maximum credit exposure to the Bank under certain letters of credit includes amounts for which the Bank has recourse to a third party lender.

The following tables summarize the contractual maturities of the financial assets underlying the Bank's credit commitments:

| | 2021 | 2020 |
|---|---|---|
| Undrawn commitments for: | | |
| Loans at amortized cost | $ **775,660** | $ 821,297 |
| Loans at FVTPL[(1)] | **68,000** | 54,918 |
| Letters of credit | **36,637** | 35,420 |
| Total undrawn loan commitments and letters of credit | **880,297** | 911,635 |
| Uncalled capital commitments for investments | **39,916** | 22,485 |
| Total credit commitments | $ **920,213** | $ 934,120 |

[(1)] Undrawn commitments for loans at FVTPL are priced at the date of funding based on the relevant market index. Consequently, the fair value of these instruments is $nil as at December 31, 2021.

### 17.2 Litigation and other contingencies

The Bank is subject to various claims and litigation arising from time to time in the ordinary course of business. The Bank records a provision for litigation and other contingencies when it becomes probable that the Bank will incur a loss and the amount can be reliably estimated. The established provisions represent the Bank's best estimate of the expenditure required to settle current and pending claims and proceedings, including related legal costs, based on currently available information. However, given the uncertainties inherent in litigation proceedings, there is a possibility that the ultimate resolution may materially differ from current estimates.

## 18. RISK MANAGEMENT

The following note presents information about the Bank's exposure to risks as a result of holding financial instruments and the management of its capital.

The Board is responsible for approving the Risk Appetite Framework and all Corporate Policies, including those related to the management of credit risk, market risk, and liquidity and funding risk. Management Guidelines, approved by the Executive Risk Management Committee, are also in place to provide further risk controls, limits and tolerances in operations. Compliance with Risk Appetite, Corporate Policies and Management Guidelines is monitored on a monthly basis and reported to the Board on a quarterly basis through the Chief Risk Officer Report.

Management has established a formal risk management committee structure to provide a structured and disciplined approach to risk management. The Executive Risk Management Committee, chaired by the Chief Risk Officer, reviews the comprehensive assessment of current and emerging risks and provides oversight to the other risk management committees. These committees include the Asset Liability Committee, the Investment Management Committee, the Technology Risk Management Committee, the Subordinated and Mezzanine Debt Financing Committee, the Trust Risk Management Committee and the Change Advisory Board.

The objectives and methodologies related to the management of credit risk, market risk and liquidity and funding risk have not changed significantly since December 31, 2020. The following is a description of these risks and how the exposures are managed.

## 18.1 Credit Risk

Credit risk is the risk of financial loss due to a borrower, guarantor or counterparty's inability or unwillingness to fulfill contractual payment obligations.

### Objectives, policies, and methodologies

- Operating in accordance with an approved business lending strategy, investment management strategy and identified target markets
- Segregating business generation activities from credit risk oversight
- Maintaining prudent credit granting criteria and entering into lending and investment transactions within the Bank's expertise
- Undertaking regular stress testing to determine probable impacts and develop treatment plans
- Establishing loan and investment management risk tolerances and limits to manage credit risk and reporting compliance with those limits to relevant internal stakeholders
- Maintaining underwriting guidelines and procedures aligned to policy and risk appetite
- Complying with applicable regulatory expectations, regulations and guidelines

The Bank mitigates credit risk by taking collateral for funds advanced or other credit enhancements such as financial guarantees. The Bank maintains policies and guidelines on the acceptability of specific classes of collateral or credit risk treatment. The principal collateral types against loans are in the form of mortgage interests over residential and commercial property, charges over business assets such as premises, inventory and accounts receivable, other registered security interests over assets, and guarantees. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed for impairment.

The Bank follows a dual stream approval process for credit transactions, where the First Line of Defense (Retail and Commercial Banking) recommends a transaction and the Second Line of Defence (Credit Risk function within the Risk Management Group) concurs with the recommendation. Both a recommendation and concurrence must occur for the transaction to be approved. In addition, the Credit Risk Review function within the Risk Management Group conducts ongoing systematic reviews of the credit adjudication process and the condition of the credit portfolio, with regular reporting to the Board.

### Risk measurement

The overall credit risk position is monitored for Risk Appetite and Corporate Policy purposes in reference to impairment, risk rating, issuer group, issuer, geographic region and industry concentration limits. Any contraventions to Risk Appetite or Corporate Policy are reported to the Board.

For its securities portfolio, the Bank supplements internal credit analysis with industry recognized rating agency data (DBRS Limited, Standard and Poor's, and Moody's Investors Service). The Bank uses the most conservative rating from the rating agency data available. For its loan portfolios, the Bank's primary reliance is on internal risk ratings based on a comprehensive review of the credit worthiness of the borrower and the quality of the collateral underlying the loan.

For regulatory purposes, the Bank measures credit risk under Basel III using the standardized approach. Under this approach, risk weights prescribed by OSFI are used to calculate risk-weighted assets for credit risk exposures. In measuring credit risk for Internal Capital Adequacy Assessment Process ("ICAAP") purposes, internal models are used to quantify capital required to cover credit risk exposures. In addition, internal capital is set aside for stress testing credit risk exposures under extreme but plausible conditions.

### 18.1.1 Credit Quality Overview

The following table sets out the information about the credit quality of the Bank's non-derivative financial assets and undrawn commitments by risk rating category and PD range:

| | 2021 | | | | | 2020 |
|---|---|---|---|---|---|---|
| | PD Range | Stage 1 | Stage 2 | Stage 3 | Total | Total |
| **Retail Loans at Amortized Cost** | | | | | | |
| Low risk | 0.01% - 1.44% | $ 4,553,064 | $ - | $ - | $ 4,553,064 | $ 5,401,435 |
| Standard monitoring | 0.60% - 24.5% | 1,363,790 | 90,002 | - | 1,453,792 | 1,750,009 |
| Special monitoring | 3.37% - 24.6% | - | 18,165 | - | 18,165 | 27,653 |
| Default | 8.41% - 99.9% | - | - | 4,062 | 4,062 | 3,124 |
| Total exposure | | 5,916,854 | 108,167 | 4,062 | 6,029,083 | 7,182,221 |
| Allowance for credit losses | | (9,572) | (2,539) | (2,365) | (14,476) | (12,622) |
| **Commercial Loans at Amortized Cost** | | | | | | |
| Low risk | 0.06% - 2.31% | $ 188,899 | $ - | $ - | $ 188,899 | $ 102,792 |
| Standard monitoring | 0.16% - 26.8% | 389,343 | 308,207 | - | 697,550 | 694,793 |
| Special monitoring | 0.50% - 26.3% | - | 60,903 | - | 60,903 | 66,922 |
| Default | 6.26% - 99.9% | - | - | 8,499 | 8,499 | 35,270 |
| Total exposure | | 578,242 | 369,110 | 8,499 | 955,851 | 899,777 |
| Allowance for credit losses | | (536) | (5,355) | (2,042) | (7,933) | (22,110) |
| **Undrawn Commitments** | | | | | | |
| Low risk | 0.07% - 0.07% | $ 90,326 | $ - | $ - | $ 90,326 | $ 598,820 |
| Standard monitoring | 0.05% - 18.8% | 516,451 | 310,127 | - | 826,578 | 335,294 |
| Special monitoring | 9.78% - 18.8% | - | 3,309 | - | 3,309 | 6 |
| Default | - | - | - | - | - | - |
| Total exposure[1] | | 606,777 | 313,436 | - | 920,213 | 934,120 |
| Allowance for credit losses | | (413) | (364) | - | (777) | (885) |
| **Retail Loans at FVOCI** | | | | | | |
| Low risk | 0.68% - 1.44% | $ 182,766 | $ - | $ - | $ 182,766 | $ 177,321 |
| Standard monitoring | 1.01% - 24.7% | 1,900,286 | 24,006 | - | 1,924,292 | 595,433 |
| Special monitoring | 11.8% - 24.6% | - | 4,748 | - | 4,748 | 6,289 |
| Default | 24.6% - 99.9% | - | - | 3,866 | 3,866 | 2,532 |
| Total exposure | | 2,083,052 | 28,754 | 3,866 | 2,115,672 | 781,575 |
| Impairment reserve[2] | | (2,455) | (836) | (567) | (3,858) | (1,843) |
| **Securities at FVOCI** | | | | | | |
| AAA/R1H | 0.17% - 0.19% | $ 1,152,238 | $ - | $ - | $ 1,152,238 | $ 809,927 |
| AA/R1M | 0.13% - 0.23% | 88,350 | - | - | 88,350 | 114,114 |
| A/R1L | 0.11% - 0.33% | 99,127 | 1,015 | - | 100,142 | 243,580 |
| BBB/R2H | 0.17% - 0.45% | 16,664 | 16,310 | - | 32,974 | 51,166 |
| BB | 0.56% - 0.56% | - | 3,974 | - | 3,974 | 9,454 |
| Total exposure | | 1,356,379 | 21,299 | - | 1,377,678 | 1,228,241 |
| Impairment reserve[2] | | (189) | (142) | - | (331) | (366) |

[1] The total exposure for undrawn commitments represents the maximum amount the Bank is contractually committed to fund. Many of these contracts will expire without being drawn upon and thereby reduce the Bank's credit risk from the maximum commitment.

[2] Impairment reserves represent the accumulated ECLs which have been reclassified from OCI to net income since inception of the FVOCI debt instruments.

Additionally, the Bank holds cash of $196,732 (2020 - $763,710) on deposit with various highly rated financial institutions that maintain investment grade credit ratings.

For derivative financial instruments, credit risk is limited to the positive replacement cost (fair value) of the instruments as this represents the cost to replace these contracts at prevailing market rates if a default occurred. The Bank mitigates exposures by limiting the counterparties to interest rate and foreign exchange contracts to credit worthy Canadian financial institutions. In determining the credit quality of derivative instruments both the Bank's own credit risk and the risk of the counterparty are considered elements of the credit quality.

Credit risk is measured by using a credit equivalent amount. The credit equivalent amount is derived from the sum of the positive replacement cost and the potential credit risk exposure which reflects the potential change in replacement cost in relation to the remaining term to maturity of the contract. The risk-weighted amount is determined by applying standard measures of counterparty risk to the credit equivalent amount.

The following table provides information in relation to the Bank's credit risk exposure for derivative financial transactions. Positive replacement cost is derived from the fair value of derivative financial instruments. Potential credit risk exposure and risk-weighted equivalents are calculated in accordance with OSFI's Guideline for Capital Adequacy Requirements ("CAR"):

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Interest Rate Contracts** | **Foreign Exchange Contracts** | **Total** | **Interest Rate Contracts** | **Foreign Exchange Contracts** | **Total** |
| Notional amounts | **$ 775,825** | **$ 58,417** | **$ 834,242** | $ 1,173,157 | $ 40,560 | $ 1,213,717 |
| Positive replacement cost | **6,854** | **362** | **7,216** | 14,732 | 1,144 | 15,876 |
| Potential credit risk exposure | **4,596** | **942** | **5,538** | 5,557 | 654 | 6,211 |
| Credit equivalent amount | **26,420** | **1,494** | **27,914** | 26,995 | 1,091 | 28,086 |
| Risk-weighted equivalent | **5,284** | **299** | **5,583** | 5,399 | 218 | 5,617 |

### 18.1.2 Collateral and Other Credit Enhancements

#### Residential mortgages

All of the Bank's residential mortgages are secured by a first charge mortgage against the underlying property. The Bank considers the value of the underlying collateral as a key indicator of credit quality and quantifies risk within its residential mortgages portfolio, in part, with reference to a mortgage's loan-to-value ("LTV") ratio. LTV is calculated as the ratio of the gross amount of the loan (or the amount committed for undrawn commitments) to the value of the underlying collateral. For loans whose LTV exceeds 80% at origination, the Bank will obtain an additional credit enhancement in the form of default insurance. Default insurance is issued either by the government backed CMHC or another highly rated financial institution and covers shortfalls in the realized value of collateral relative to the principal balance of a defaulted loan upon completion of foreclosure procedures.

As at December 31, 2021, approximately 56.0% (2020 – 67.2%) of the Bank's residential mortgages were insured against borrower default.

#### Consumer loans

Certain loans within the Bank's consumer loans portfolio are treated as unsecured credit exposures due to the relatively poor collateral value provided by the underlying assets (used automobiles, home renovations, retail goods, etc.). Thus as a further credit enhancement, the Bank has entered into an arrangement with its largest third party originator to provide a limited financial guarantee over the loans they originate. The guarantee is secured by a cash reserve held on deposit with the Bank and the Bank has the right to reimburse any credit losses experienced within the portfolio from the funds held in the reserve. The originator's guarantee is limited to the value of the cash reserve and the Bank has no further recourse against the originator should actual losses exceed the reserve amount. As at December 31, 2021 the cash reserve had a balance of $9,410 (2020 - $6,813) providing credit enhancement to $515,831 (2020 - $443,163) of the Bank's consumer loans.

### Credit card receivables

The Bank's credit card receivables portfolio are unsecured credit exposures. As a limited credit enhancement, the Bank has entered into an arrangement with the third party originator whereby the Bank has the right to offset the originator's monthly servicing compensation by credit losses realized by the Bank. The originator's guarantee is limited to the monthly finance charges from the receivables portfolio after deduction of the Bank's first priority interest and certain other items. The Bank has no further recourse against the originator should the credit losses exceed the monthly finance charges from the portfolio.

### Commercial mortgages and loans

Approximately 73.5% (2020 – 80.4%) of the Bank's commercial portfolio consists of real estate and construction lending which are secured by a first charge mortgage over the underlying property. The Bank will also take collateral in the form of general security agreements over business assets and guarantees from shareholders and/or members of the corporate group when appropriate. The Bank does not routinely update the valuation of collateral held against its commercial loans as its ongoing risk management practices are focused around the general credit worthiness of the borrower rather than quality of collateral. Consequently, valuations of collateral are updated only when required to negotiate a significant restructuring/refinancing of an existing loan or to determine workout strategies for distressed assets.

### Debt securities

Asset-backed debt securities totaling $11,633 (2020 – $141,857) consist of short-term paper backed by specifically pledged assets, which may include trade receivables, residential mortgages, auto loans and/or commercial leases. The issuers of these securities provide additional credit enhancement to the underlying asset pools such as cash reserves, overcollateralization and/or other limited financial guarantees. The Bank relies upon assessments of the collateral/credit enhancements performed by external rating agencies and only holds instruments which have received the highest possible credit rating of AAA/R1H.

The remaining debt securities held by the Bank are either senior unsecured obligations or guaranteed by the Government of Canada. Consequently, for these instruments the creditworthiness of the issuer/guarantor is considered to be the most relevant indicator of credit quality with the underlying collateral, if any, having a limited impact on the Bank's credit risk assessment.

## 18.1.3 Impaired Financial Assets

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as credit impaired (Stage 3) because they are either: (1) less than 90 days past due; (2) loans under short-term payment deferral at December 31, 2020, in response to COVID-19; or (3) fully insured and collection efforts are reasonably expected to result in full repayment:

| | **2021** | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | **1 – 29 Days** | **30 – 89 Days** | **90 Days and Greater** | **Total** | 1 – 29 Days | 30 – 89 Days | 90 Days and Greater | Total |
| **Loans at Amortized Cost** | | | | | | | | |
| Residential mortgages | **$ 28,347** | **$ 8,536** | **$ 6,768** | **$ 43,651** | $ 39,478 | $ 14,875 | $ 10,865 | $ 65,218 |
| Consumer loans | **3,003** | **1,785** | **-** | **4,788** | 2,505 | 1,786 | - | 4,291 |
| Credit card receivables | **4,068** | **1,492** | **-** | **5,560** | - | - | - | - |
| Commercial mortgages and loans | **1,159** | **1,310** | **5,363** | **7,832** | 193 | 6,915 | 60 | 7,168 |
| Commercial leases | **3,647** | **1,545** | **1,489** | **6,681** | 5,078 | 1,983 | 46 | 7,107 |
| **Loans at FVOCI** | | | | | | | | |
| Residential mortgages | **14,159** | **4,218** | **-** | **18,377** | 18,803 | 6,094 | - | 24,897 |
| | **$ 54,383** | **$ 18,886** | **$ 13,620** | **$ 86,889** | $ 66,057 | $ 31,653 | $ 10,971 | $ 108,681 |

The following table presents the gross amount of credit impaired (Stage 3) loans, the corresponding allowance for credit losses and the geographic distribution:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Gross Impaired Loans** | **Allowance for Credit Losses** | **Net Carrying Value** | **Gross Impaired Loans** | **Allowance for Credit Losses** | **Net Carrying Value** |
| **Loans at Amortized Cost** | | | | | | |
| Residential mortgages | **$ 2,124** | **$ (746)** | **$ 1,378** | $ 2,276 | $ (681) | $ 1,595 |
| Consumer loans | **623** | **(540)** | **83** | 848 | (736) | 112 |
| Credit card receivables | **1,244** | **(1,079)** | **165** | - | - | - |
| Commercial mortgages and loans | **5,317** | **(1,225)** | **4,092** | 34,195 | (12,648) | 21,547 |
| Commercial leases | **3,182** | **(817)** | **2,365** | 1,075 | (333) | 742 |
| **Loans at FVOCI** | | | | | | |
| Residential mortgages[1] | **3,975** | **-** | **3,975** | 2,532 | - | 2,532 |
| | **$ 16,465** | **$ (4,407)** | **$ 12,058** | $ 40,926 | $ (14,398) | $ 26,528 |
| **By geography:** | | | | | | |
| British Columbia | **$ 1,073** | | | $ 927 | | |
| Alberta | **1,796** | | | 5,843 | | |
| Saskatchewan | **7,480** | | | 5,742 | | |
| Ontario | **4,960** | | | 21,320 | | |
| Other | **1,156** | | | 7,094 | | |
| | **$ 16,465** | | | $ 40,296 | | |

[1] For credit impaired loans measured at FVOCI, no separate allowance for credit losses is recognized in the consolidated balance sheet as their carrying value will already reflect the ECLs. Instead, lifetime ECLs of $567 have been reclassified from OCI to net income representing the loss allowance that would have otherwise been recognized had these instruments been measured at amortized cost.

There were no credit impaired (Stage 3) securities in either 2021 or 2020.

### 18.1.4 Credit Risk Concentrations

The following tables summarize the credit exposures by industry for the Bank's loans and leases:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Value | Undrawn Commitments | Total | Gross Carrying Value | Undrawn Commitments | Total |
| **Commercial Customers** | | | | | | |
| Agriculture and forestry | $ 72,734 | $ 6,342 | $ 79,076 | $ 87,059 | $ 22,214 | $ 109,273 |
| Construction | 276,923 | 423,948 | 700,871 | 198,601 | 512,449 | 711,050 |
| Commercial real estate | 194,128 | 3,900 | 198,028 | 274,052 | 1,862 | 275,914 |
| Credit union | 4,174 | 175,712 | 179,886 | - | 198,391 | 198,391 |
| Health care | 19,792 | 830 | 20,622 | 12,437 | 1,000 | 13,437 |
| Hospitality | 59,089 | 8 | 59,097 | 63,424 | 11 | 63,435 |
| Manufacturing | 29,162 | 6 | 29,168 | 31,945 | 6 | 31,951 |
| Public administration | 46,169 | 21,221 | 67,390 | 29,822 | 18,985 | 48,807 |
| Transportation and warehousing | 105,195 | 7,058 | 112,253 | 68,118 | 3,220 | 71,338 |
| Utilities | 26,562 | - | 26,562 | 19,484 | - | 19,484 |
| Other | 121,923 | 69,949 | 191,872 | 114,835 | 51,754 | 166,589 |
| **Retail Customers** | | | | | | |
| Residential mortgages – insured | 4,188,126 | 28,587 | 4,216,713 | 4,998,030 | 23,730 | 5,021,760 |
| Residential mortgages – uninsured | 3,294,586 | 101,722 | 3,396,308 | 2,438,650 | 62,891 | 2,501,541 |
| Consumer loans | 565,740 | 20,962 | 586,702 | 527,116 | 15,122 | 542,238 |
| Credit card receivables | 96,303 | 20,052 | 116,355 | - | - | - |
| **Uncalled Capital Commitments for Investments** | - | 39,916 | 39,916 | - | 22,485 | 22,485 |
| Total exposure | $ 9,100,606 | $ 920,213 | $ 10,020,819 | $ 8,863,573 | $ 934,120 | $ 9,797,693 |

The following tables summarize the credit exposures by geographic region for the Bank's loans and leases:

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | British Columbia | Alberta | Saskatchewan | Ontario | Other | Total |
| Outstanding | $ 1,228,875 | $ 1,710,257 | $ 467,168 | $ 4,959,421 | $ 734,885 | $ 9,100,606 |
| Undrawn commitments | 113,471 | 50,228 | 201,782 | 460,727 | 94,005 | 920,213 |
| Total exposure | $ 1,342,346 | $ 1,760,485 | $ 668,950 | $ 5,420,148 | $ 828,890 | $ 10,020,819 |

| | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | British Columbia | Alberta | Saskatchewan | Ontario | Other | Total |
| Outstanding | $ 1,149,072 | $ 1,843,749 | $ 443,655 | $ 4,669,585 | $ 757,512 | $ 8,863,573 |
| Undrawn commitments | 203,599 | 44,301 | 193,263 | 392,075 | 100,882 | 934,120 |
| Total exposure | $ 1,352,671 | $ 1,888,050 | $ 636,918 | $ 5,061,660 | $ 858,394 | $ 9,797,693 |

### 18.1.5 Counterparty Credit Risk

Counterparty credit risk is the risk that a counterparty to a derivative or FX spot transaction could default before the final settlement of the transaction.

In order to reduce counterparty credit risk exposure, the Bank uses, where possible, legally enforceable bi-lateral and multi-lateral netting agreements with counterparties. All over-the-counter derivatives are executed under industry standards agreements such as an International Swaps and Derivatives Association (ISDA) agreement (or equivalent). The Bank uses legally enforceable collateral arrangements, such as a credit support annex (CSA) where the Bank has chosen to adopt an exchange of variation margin.

### 18.2 Market Risk

Market risk is the risk of financial loss in value of the Bank due to changes in interest rates, credit spreads, equity prices, foreign exchange rates, market prices of financial instruments and implied volatilities.

#### Objectives, policies, and methodologies

- Monitoring exposure to changes in interest rates and foreign exchange rates, including simulating the impact of interest rate changes
- Using on- and off-balance sheet strategies to manage interest rate and foreign exchange risk
- Undertaking regular stress testing to determine the impact from an immediate change in interest rates and develop treatment plans
- Establishing aggregate risk tolerances and limits to manage market risk and reporting compliance with those limits to relevant internal stakeholders
- Complying with applicable regulatory expectations, regulations and guidelines

The Bank has established policies that outline limits for the exposure of net interest income and the economic value of equity to interest rate and price risk, foreign currency risk and derivative portfolio concentrations.

The Bank is not exposed to significant currency risk as its net foreign currency positions are not significant.

The Bank does not have a trading book and therefore market risk is limited to the banking book only.

#### Risk measurement

The market risk position is monitored in relation to policy limits on a regular basis. Measurement of market risk for policy purposes is based upon key assumptions such as future interest rate movements, asset growth, prepayments of deposits and loans, and funding mix. The short-term (next 12 months) market risk position is assessed by measuring the impact of an immediate 100 basis point (bp) shock on net interest income. The long-term market risk position is measured by the impact of an immediate 100 bp shock on the economic value of equity. The information presented is a measurement of interest rate sensitivity gaps at a specific point in time, and there is potential for these gaps to change significantly over a short period. The impact on earnings from changes in market interest rates will depend on both the magnitude of and speed with which interest rates change, as well as the size and maturity structure of the cumulative interest rate gap position and the management of those positions over time.

| | **2021[1]** | | **2020** | |
|---|---|---|---|---|
| | **Net Interest Income** | **Economic Value of Equity** | **Net Interest Income** | **Economic Value of Equity** |
| **Impact of:** | | | | |
| 100 bp increase in rates | **$ 2,911** | **$ 2,709** | $ 492 | $ (7,732) |
| 100 bp decrease in rates | **(2,469)** | **(2,313)** | (397) | 8,216 |

[1] For 2021 and 2020, the rates have been adjusted to zero where effective rates at December 31 were less than zero after 100 bp decrease in rates.

In measuring market risk for ICAAP purposes, internal models are used to quantify capital required to cover market risk exposures. In addition, internal capital is set aside for stress testing market risk exposures under extreme but plausible conditions.

### Interest rate risk

Within market risk, the Bank's exposure to interest rate risk can be measured by the mismatch, or gap, between the assets, liabilities and derivative financial instruments scheduled to mature or reprice on particular dates. Gap analysis measures the difference between the amount of assets and liabilities that reprice in specific time periods. Interest rate metrics take into account prepayment risk and fixed rate loan commitments for calculating interest rate risk. The Bank's Asset Liability Committee monitors these interest rate metrics on a monthly basis.

Repricing dates are based on the earlier of maturity or the contractual repricing date and effective interest rates, where applicable, represent the weighted average effective yield. The tables below show the Bank's gap position as at December 31:

| | 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Floating and on Demand | Within 3 Months | Over 3 Months to 1 Year | Over 1 Year to 5 Years | Over 5 Years | Non-Interest Sensitive | Total |
| **Assets** | | | | | | | |
| Cash | $ 196,732 | $ - | $ - | $ - | $ - | $ - | $ 196,732 |
| Securities | 72 | 883,019 | 104,504 | 473,486 | 11,083 | 2,089 | 1,474,253 |
| Loans receivable | 1,218,310 | 446,373 | 1,850,279 | 5,394,816 | 129,618 | 38,801 | 9,078,197 |
| Other securitization assets | - | - | - | - | - | 85,784 | 85,784 |
| Other non-sensitive assets | - | - | - | - | - | 71,907 | 71,907 |
| Total assets | 1,415,114 | 1,329,392 | 1,954,783 | 5,868,302 | 140,701 | 198,581 | 10,906,873 |
| **Liabilities and Shareholders' Equity** | | | | | | | |
| Deposits | 1,022,826 | 748,272 | 2,006,300 | 2,889,764 | - | 28,480 | 6,695,642 |
| Securitization liabilities | - | 44,463 | 527,633 | 2,864,364 | - | 3,249 | 3,439,709 |
| Loans and notes payable | - | 19,984 | 144,048 | - | - | 227 | 164,259 |
| Other non-sensitive liabilities | - | - | - | - | - | 62,041 | 62,041 |
| Shareholders' equity | - | - | - | - | - | 545,222 | 545,222 |
| Total liabilities and Shareholders' equity | 1,022,826 | 812,719 | 2,677,981 | 5,754,128 | - | 639,219 | 10,906,873 |
| On-balance sheet gap | 392,288 | 516,673 | (723,198) | 114,174 | 140,701 | (440,638) | - |
| **Notional Amount of Derivative Financial Instruments** | | | | | | | |
| Pay side instruments | - | (394,467) | (61,909) | (261,949) | (57,502) | (58,415) | (834,242) |
| Receive side instruments | - | 767,827 | 8,000 | - | - | 58,415 | 834,242 |
| Derivative financial instruments gap | - | 373,360 | (53,909) | (261,949) | (57,502) | - | - |
| Total gap | 392,288 | 890,033 | (777,107) | (147,775) | 83,199 | (440,638) | $ - |
| Total cumulative gap | $ 392,288 | $1,282,321 | $ 505,214 | $ 357,439 | $ 440,638 | $ - | |

| | 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Floating and on Demand | Within 3 Months | Over 3 Months to 1 Year | Over 1 Year to 5 Years | Over 5 Years | Non-Interest Sensitive | Total |
| **Assets** | | | | | | | |
| Cash | $ 763,710 | $ - | $ - | $ - | $ - | $ - | $ 763,710 |
| Securities | - | 448,017 | 293,927 | 532,615 | 16,721 | 2,981 | 1,294,261 |
| Loans receivable | 398,554 | 476,886 | 2,210,711 | 5,648,085 | 116,135 | (21,530) | 8,828,841 |
| Other securitization assets | - | - | - | - | - | 94,277 | 94,277 |
| Other non-sensitive assets | - | - | - | - | - | 82,822 | 82,822 |
| Total assets | 1,162,264 | 924,903 | 2,504,638 | 6,180,700 | 132,856 | 158,550 | 11,063,911 |
| **Liabilities and Shareholders' Equity** | | | | | | | |
| Deposits | 988,500 | 722,765 | 1,947,373 | 2,638,278 | - | 37,264 | 6,334,180 |
| Securitization liabilities | - | 17,186 | 1,250,198 | 2,649,983 | - | 4,316 | 3,921,683 |
| Loans and notes payable | 265 | 69,114 | 144,320 | - | - | 1,046 | 214,745 |
| Other non-sensitive liabilities | - | - | - | - | - | 66,188 | 66,188 |
| Shareholders' equity | - | - | - | - | - | 527,115 | 527,115 |
| Total liabilities and Shareholders' equity | 988,765 | 809,065 | 3,341,891 | 5,288,261 | - | 635,929 | 11,063,911 |
| On-balance sheet gap | 173,499 | 115,838 | (837,253) | 892,439 | 132,856 | (477,379) | - |
| **Notional Amount of Derivative Financial Instruments** | | | | | | | |
| Pay side instruments | - | (631,158) | (232,795) | (255,893) | (53,311) | (40,560) | (1,213,717) |
| Receive side instruments | - | 733,355 | 157,195 | 229,296 | 53,311 | 40,560 | 1,213,717 |
| Derivative financial instruments gap | - | 102,197 | (75,600) | (26,597) | - | - | - |
| Total gap | 173,499 | 218,035 | (912,853) | 865,842 | 132,856 | (477,379) | $ - |
| Total cumulative gap | $ 173,499 | $ 391,534 | $ (521,319) | $ 344,253 | $ 477,379 | $ - | |

The weighted average interest rates of the financial instruments from the tables above are as follows:

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Floating and on Demand | Within 3 Months | Over 3 Months to 1 Year | Over 1 Year to 5 Years | Over 5 Years | Total |
| Assets and receive side instruments | **2.89%** | **1.27%** | **3.24%** | **2.97%** | **7.51%** | **2.75%** |
| Liabilities and pay side instruments | **0.44%** | **0.80%** | **1.35%** | **1.43%** | **1.70%** | **1.25%** |

| | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Floating and on Demand | Within 3 Months | Over 3 Months to 1 Year | Over 1 Year to 5 Years | Over 5 Years | Total |
| Assets and receive side instruments | 2.11% | 1.33% | 3.16% | 3.03% | 5.02% | 3.19% |
| Liabilities and pay side instruments | 0.35% | 0.90% | 1.46% | 1.63% | 1.66% | 1.38% |

### 18.3 Liquidity and Funding Risk

Liquidity and funding risk is the risk of financial loss due to an inability to access sources of funds or to generate sufficient cash or cash equivalents in a timely manner to meet all commitments as they become due, without raising funds at adverse rates or selling on a forced basis.

#### Objectives, policies, and methodologies

- Daily monitoring of cash flows
- Investing a prudent portion of the investment portfolio in liquid, low-risk, unencumbered instruments
- Acquiring credit union, commercial, and retail deposits and accessing capital markets
- Diversifying funding sources
- Maintaining external credit facilities, including lines of credit, to support daily liquidity and business needs and unforeseen liquidity events
- Maintaining an investment grade market rating
- Maintaining a liquidity plan, including a contingency funding plan, and funding strategy to ensure there is sufficient cash and high quality cash equivalents to support daily liquidity needs
- Undertaking regular stress testing to assist in identifying, measuring and controlling liquidity and funding risks, assessing the adequacy of liquidity buffers in case of both internal and market-wide stress events, and developing treatment plans
- Establishing aggregate tolerances and limits to manage liquidity and funding risk and reporting compliance with those limits to relevant internal stakeholders
- Complying with applicable regulatory expectations, regulations and guidelines

#### Risk measurement

The assessment of the liquidity position reflects management's estimates, assumptions, and judgements relative to current and future company specific operations and market conditions. The Bank's liquidity position is monitored on a daily basis to ensure obligations can be met and cash is optimized for the balance sheet. The goal is to effectively use the Bank's portfolio of high quality liquid assets ("HQLA") and back stop liquidity facilities (see Note 11) to ensure liquidity access during constrained liquidity conditions.

The liquidity position is monitored for policy purposes in reference to the OSFI prescribed Liquidity Coverage Ratio ("LCR") which is based on a 30 day liquidity stress scenario, with assumptions defined in the Liquidity Adequacy Requirements ("LAR") Guideline. The LCR is calculated as the ratio of HQLA plus Eligible non-operational demand and overnight deposits to net cash outflows over the next 30 days. HQLA are defined in the LAR Guideline, and are grouped into three main categories, with varying reductions applied to arrive at the amount included in the table that follows. The total weighted values for net cash outflows for the next 30 days are derived by applying the assumptions specified in the LAR Guideline to specific items, including loans. The Bank also incorporates a number of internal liquidity measures to forecast liquidity requirements including a minimum Net Cumulative Cash Flow that is used to identify potential cash flow shortfalls at different points over a twelve month horizon.

Throughout 2021 and 2020, the Bank has been in compliance with the OSFI prescribed LAR Guideline.

In October 2014, the Basel Committee on Banking Supervision ("BCBS") released its final document on the Net Stable Funding Ratio ("NSFR"). Application of NSFR for Domestic Systemically Important Banks was implemented effective January 1, 2020 while the application of NSFR to small and medium-sized institutions is targeted for a later date. The Bank continues to monitor developments related to liquidity requirements.

## Contractual obligations and commitments

The following tables provide a summary of the primary future contractual maturities for the Bank's funding liabilities and loan commitments which affect liquidity:

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | On Demand | Within 3 months | Over 3 months to 1 year | Over 1 year to 5 years | Over 5 years | Total |
| Deposits | $ 1,022,904 | $ 757,258 | $ 2,022,286 | $ 2,893,194 | $ - | $ 6,695,642 |
| Securitization liabilities | - | 47,712 | 527,633 | 2,864,364 | - | 3,439,709 |
| Loans and notes payable | - | 20,212 | 144,047 | - | - | 164,259 |
| Loan commitments | 237,899 | 34,139 | 94,774 | 523,078 | 30,323 | 920,213 |
| | $ 1,260,803 | $ 859,321 | $ 2,788,740 | $ 6,280,636 | $ 30,323 | $ 11,219,823 |

| | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | On Demand | Within 3 months | Over 3 months to 1 year | Over 1 year to 5 years | Over 5 years | Total |
| Deposits | $ 988,650 | $ 736,529 | $ 1,968,687 | $ 2,640,314 | $ - | $ 6,334,180 |
| Securitization liabilities | - | 21,503 | 1,250,198 | 2,649,982 | - | 3,921,683 |
| Loans and notes payable | 265 | 70,160 | 144,320 | - | - | 214,745 |
| Loan commitments | 221,412 | 23,431 | 70,717 | 571,845 | 46,715 | 934,120 |
| | $ 1,210,327 | $ 851,623 | $ 3,433,922 | $ 5,862,141 | $ 46,715 | $ 11,404,728 |

## Collateral pledged

The Bank is required to pledge or hold collateral in segregated safekeeping accounts to support its lines of credit and repurchase agreements. The Bank is also required to post collateral to derivative counterparties when the sum of the mark to market of the derivative financial instruments in favour of the counterparty exceeds the established threshold.

The following table summarizes the fair value and type of collateral pledged by the Bank to support its various obligations:

| | | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|---|
| | Note | Securities | Residential Mortgages | Total Pledged | Securities | Residential Mortgages[1] | Total Pledged |
| Derivative liabilities | 5 | $ 4,200 | $ - | $ 4,200 | $ 3,500 | $ - | $ 3,500 |
| Loans and notes payable | | | | | | | |
| Lines of credit | 11 | 62,827 | 348,440 | 411,267 | 19,568 | 432,846 | 452,414 |
| Repurchase agreements | 11 | - | - | - | - | - | - |
| Total collateral pledged | | $ 67,027 | $ 348,440 | $ 415,467 | $ 23,068 | $ 432,846 | $ 455,914 |

[1] Restated in 2021 to disclose the Residential Mortgages pledged to the Bank's line of credit. There was no draw on the line of credit against this pledged amount.

### Offsetting financial assets and liabilities

Certain financial assets and financial liabilities are subject to enforceable master netting agreements or similar arrangements. Each agreement between the Bank and the counterparty allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis, however, each party to the master netting arrangement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party. Based on the terms of each agreement, an event of default includes failure by a party to make payment when due; failure by a party to perform any obligation required by the agreement (other than payment) if such failure is not remedied within periods defined in the respective agreements after notice of such failure is given to the party; or bankruptcy.

The following table summarizes the financial assets and liabilities subject to master netting agreements or similar arrangements and the potential impact of these arrangements on the consolidated balance sheet:

| | | 2021 | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | Related Amounts Not Set Off in the Balance Sheet | | |
| | Note | Gross Amounts of Recognized Financial Instruments | Gross Amounts of Recognized Financial Instruments Set Off in the Balance Sheet | Net Amounts of Financial Instruments Presented in the Balance Sheet | Impact of Master Netting or Similar Agreements[1] | Collateral Received/ Pledged[2] | Net Amount[3] |
| **Financial Assets** | | | | | | | |
| Derivative assets | 5 | $ 7,216 | $ - | $ 7,216 | $ (3,464) | $ (606) | $ 3,146 |
| **Financial Liabilities** | | | | | | | |
| Derivative liabilities | 5 | $ 7,075 | $ - | $ 7,075 | $ (3,464) | $ (693) | $ 2,918 |
| Loans and notes payable | | | | | | | |
| Lines of credit | 11 | - | - | - | - | - | - |
| Repurchase agreements | 11 | - | - | - | - | - | - |
| Total financial liabilities | | $ 7,075 | $ - | $ 7,075 | $ (3,464) | $ (693) | $ 2,918 |

(1) Amounts that are subject to master netting arrangements or similar agreements but were not offset because they did not meet the net settlement/ simultaneous settlement criteria; or because the rights of set off are conditional upon the default of the counterparty only.

(2) Collateral received/pledged amounts are reflected at fair value, but have been limited to the net balance sheet exposure so as not to include any over-collateralization.

(3) Not intended to represent the Bank's actual exposure to credit risk, as a variety of credit mitigation strategies are employed in addition to offsetting and collateral arrangements.

| | | 2020 | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | Related Amounts Not Set Off in the Balance Sheet | | |
| | Note | Gross Amounts of Recognized Financial Instruments | Gross Amounts of Recognized Financial Instruments Set Off in the Balance Sheet | Net Amounts of Financial Instruments Presented in the Balance Sheet | Impact of Master Netting or Similar Agreements[1] | Collateral Received/ Pledged[2] | Net Amount[3] |
| **Financial Assets** | | | | | | | |
| Derivative assets | 5 | $ 15,877 | $ - | $ 15,877 | $ (4,020) | $ (5,088) | $ 6,769 |
| **Financial Liabilities** | | | | | | | |
| Derivative liabilities | 5 | $ 18,150 | $ - | $ 18,150 | $ (4,020) | $ - | $ 14,130 |
| Loans and notes payable | | | | | | | |
| Lines of credit | 11 | 265 | - | 265 | - | - | 265 |
| Repurchase agreements | 11 | - | - | - | - | - | - |
| Total financial liabilities | | $ 18,415 | $ - | $ 18,415 | $ (4,020) | $ - | $ 14,395 |

(1) Amounts that are subject to master netting arrangements or similar agreements but were not offset because they did not meet the net settlement/ simultaneous settlement criteria; or because the rights of set off are conditional upon the default of the counterparty only.

(2) Collateral received/pledged amounts are reflected at fair value, but have been limited to the net balance sheet exposure so as not to include any over-collateralization.

(3) Not intended to represent the Bank's actual exposure to credit risk, as a variety of credit mitigation strategies are employed in addition to offsetting and collateral arrangements.

## 18.4 Capital Management

The Bank manages and monitors capital from several perspectives, including regulatory and ICAAP capital. Under the Basel III framework, regulatory capital is allocated to three tiers: Common Equity Tier 1 ("CET 1"), Tier 1 and Tier 2. CET 1 regulatory capital comprises the more permanent components of capital and consists of common share capital, retained earnings and AOCI. In addition, goodwill and other items as prescribed by OSFI are deducted from CET 1 regulatory capital. Tier 1 regulatory capital comprises of CET 1 and additional Tier 1 items which include preferred shares. Tier 2 regulatory capital consists of general allowances (eligible stage 1 and stage 2 allowances) less deductions as prescribed by OSFI. Total regulatory capital is defined as the sum of Tier 1 and Tier 2 regulatory capital.

Regulatory ratios are calculated by dividing CET 1 regulatory capital, Tier 1 regulatory capital and total regulatory capital by risk-weighted assets ("RWA"). The calculation of RWA is determined from OSFI prescribed rules relating to on-balance sheet and off-balance sheet exposures and includes an amount for operational risk. The Bank is not required to compute market risk since the Bank is not an internationally active financial institution. In addition, OSFI formally establishes risk-based capital limits for deposit-taking institutions. Current OSFI limits are a minimum CET 1 regulatory capital to RWA ratio of 7%, a minimum Tier 1 regulatory capital to RWA ratio of 8.5% and a minimum total regulatory capital to RWA ratio of 10.5%. In addition Canadian financial institutions are required to maintain a material operating buffer above the OSFI prescribed minimum leverage ratio of 3%. The regulatory requirements are determined on a Basel III "all in" basis as per OSFI guidelines.

Throughout 2021 and 2020, the Bank has been in compliance with OSFI prescribed capital adequacy requirements.

| | 2021 | 2020 |
|---|---|---|
| **Capital** | | |
| Common Equity Tier 1 regulatory capital | $ **408,188** | $ 393,415 |
| Tier 1 regulatory capital | **519,175** | 504,402 |
| Total regulatory capital | **537,124** | 523,214 |
| **Risk-weighted assets** | | |
| Credit risk | **3,040,744** | 2,870,885 |
| Operational risk | **238,037** | 218,868 |
| Total risk-weighted assets | $ **3,278,781** | $ 3,089,753 |
| **Capital Ratios** | | |
| Common Equity Tier 1 regulatory capital to risk-weighted assets | **12.5%** | 12.7% |
| Tier 1 regulatory capital to risk-weighted assets | **15.8%** | 16.3% |
| Total regulatory capital to risk-weighted assets | **16.4%** | 16.9% |
| Leverage ratio | **4.6%** | 4.4% |

The Bank's subsidiary, Concentra Trust, is also required to meet these regulatory capital requirements. Throughout 2021 and 2020, the Bank's subsidiary has been in compliance with OSFI prescribed capital adequacy requirements as follows:

| | 2021 | 2020 |
|---|---|---|
| **Capital** | | |
| Common Equity Tier 1 regulatory capital | $ **17,408** | $ 16,269 |
| Tier 1 regulatory capital | **17,408** | 16,269 |
| Total regulatory capital | **17,427** | 16,284 |
| **Risk-weighted assets** | | |
| Credit risk | **4,630** | 4,612 |
| Operational risk | **19,238** | 18,786 |
| Total risk-weighted assets | $ **23,868** | $ 23,398 |
| **Capital Ratios** | | |
| Common Equity Tier 1 regulatory capital to risk-weighted assets | **72.9%** | 69.5% |
| Tier 1 regulatory capital to risk-weighted assets | **72.9%** | 69.5% |
| Total regulatory capital to risk-weighted assets | **73.0%** | 69.6% |
| Leverage | **92.1%** | 89.9% |

## 19. FAIR VALUE OF ASSETS AND LIABILITIES

The fair values of assets and liabilities are based on relevant market prices and information available at the reporting date. Due to the use of subjective judgement and uncertainties, the aggregate fair value amounts disclosed in the consolidated financial statements should not be interpreted as necessarily being realizable in an immediate settlement or sale. The following is a summary of how the Bank determines the fair value of its financial instruments and other assets and liabilities measured at fair value on a recurring or non-recurring basis.

Cash, accounts receivable, loans and notes payable, and accounts payable are all short-term in nature and as such, their fair value approximates carrying value.

The fair value of securities is established using market prices when available. Alternatively, fair values are determined using valuation models based on assumptions concerning the amount and timing of estimated future cash flows and discount rates.

The estimated fair value of loans reflects changes in general interest rates and credit worthiness of borrowers that have occurred since the loans were originated or purchased. The fair value of fixed interest rate loans is calculated using discounted cash flows based on current rates of interest for similar lending arrangements. The fair value of floating interest rate loans approximates carrying value. The credit risk adjustment based on the perceived credit worthiness of a borrower represents a significant unobservable input in the determination of fair value resulting in these instruments being classified at Level 3 in the fair value hierarchy.

The fair values of deposits with no stated maturity or due on demand are assumed to approximate carrying value.

For the remainder of the deposits, fair value is calculated using discounted cash flows based on current market interest rates for similar maturities.

The fair value of derivative financial instruments is calculated by referring to the appropriate current market yields with matching terms to maturity. The fair values reflect the estimated amounts that the Bank would receive or pay to terminate the contracts at the reporting date.

### Fair value hierarchy

The following tables present the carrying amounts and fair values of financial instruments and other assets and liabilities measured at fair value on a recurring and non-recurring basis, including their levels within the fair value hierarchy. The table does not include: (1) financial instruments whose fair value approximates carrying value due to the short-term nature of the instrument; or (2) other assets and liabilities which are measured on a non-fair value basis, such as premises and equipment, goodwill and intangible assets:

| | 2021 | | | | |
|---|---|---|---|---|---|
| | **Carrying Value** | **Level 1** | **Level 2** | **Level 3** | **Fair Value** |
| **Financial assets recorded at fair value** | | | | | |
| Securities at FVTPL | $ 96,575 | $ - | $ 36,665 | $ 59,910 | $ 96,575 |
| Securities at FVOCI | 1,377,678 | - | 1,377,678 | - | 1,377,678 |
| Loans at FVOCI | 2,115,672 | - | - | 2,115,672 | 2,115,672 |
| Derivative assets | 7,216 | - | 7,216 | - | 7,216 |
| **Financial assets recorded at amortized cost** | | | | | |
| Loans at amortized cost | 6,962,525 | - | - | 6,961,128 | 6,961,128 |
| Other securitization assets | 85,784 | - | 85,784 | - | 85,784 |
| **Financial liabilities recorded at fair value** | | | | | |
| Derivative liabilities | 7,075 | - | 7,075 | - | 7,075 |
| **Financial liabilities recorded at amortized cost** | | | | | |
| Deposits | 6,695,642 | - | 6,699,487 | - | 6,699,487 |
| Securitization liabilities | 3,439,709 | - | 3,413,474 | - | 3,413,474 |

| | 2020 | | | | |
|---|---|---|---|---|---|
| | Carrying Value | Level 1 | Level 2 | Level 3 | Fair Value |
| **Financial assets recorded at fair value** | | | | | |
| Securities at FVTPL | $ 66,020 | $ - | $ 34,757 | $ 31,263 | $ 66,020 |
| Securities at FVOCI | 1,228,241 | - | 1,228,241 | - | 1,228,241 |
| Loans at FVOCI | 781,575 | - | - | 781,575 | 781,575 |
| Derivative assets | 15,877 | - | 15,877 | - | 15,877 |
| **Financial assets recorded at amortized cost** | | | | | |
| Loans at amortized cost | 8,047,266 | - | - | 8,166,002 | 8,166,002 |
| Other securitization assets | 94,277 | - | 94,277 | - | 94,277 |
| **Financial liabilities recorded at fair value** | | | | | |
| Derivative liabilities | 18,150 | - | 18,150 | - | 18,150 |
| **Financial liabilities recorded at amortized cost** | | | | | |
| Deposits | 6,334,180 | - | 6,396,403 | - | 6,396,403 |
| Securitization liabilities | 3,921,683 | - | 3,970,217 | - | 3,970,217 |

The following tables summarize the changes in Level 3 assets recorded at fair value for the year ended December 31:

| | 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Balance, Beginning of Year | Purchases/ Issuances | Unrealized Gains (Losses) Recorded in Net Income | Unrealized Gains (Losses) Recorded in OCI | Sales/ Settlements | Transfers into Level 3 | Balance, End of Year |
| Securities at FVTPL | $ 31,263 | $ 27,176 | $ 1,471 | $ - | $ - | $ - | $ 59,910 |
| Loans at FVOCI | 781,575 | 761,134 | - | (11,765) | (596,378) | 1,181,106 | 2,115,672 |
| | $ 812,838 | $ 788,310 | $ 1,471 | $ (11,765) | $ (596,378) | $ 1,181,106 | $ 2,175,582 |

| | 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Balance, Beginning of Year | Purchases/ Issuances | Unrealized Gains (Losses) Recorded in Net Income | Unrealized Gains (Losses) Recorded in OCI | Sales/ Settlements | Transfers into Level 3 | Balance, End of Year |
| Securities at FVTPL | $ - | $ 48,384 | $ (596) | $ - | $ (16,525) | $ - | $ 31,263 |
| Loans at FVOCI | 749,876 | 202,569 | - | 9,265 | (180,135) | - | 781,575 |
| | $ 749,876 | $ 250,953 | $ (596) | $ 9,265 | $ (196,660) | $ - | $ 812,838 |

During the year ended December 31, 2021 the Bank transferred $1,181,106 of residential mortgages into Level 3 assets recorded at fair value due to the business model under which the assets are managed changing from a hold to collect to a hold to collect and sell model. There were no other transfers between Level 1, Level 2 and/or Level 3 in 2021 and 2020.

### Level 3 sensitivity analysis

The fair value of Level 3 assets is determined using management's judgements about the appropriate value of unobservable inputs. Due to the unobservable nature of the inputs used, there may be uncertainty about the valuation of Level 3 assets and liabilities. Management has used a range of reasonably possible alternative assumptions to determine the sensitivity of the fair value to these inputs and the resulting potential impact on Level 3 assets as at December 31 in the table below:

| | **2021** | | | |
|---|---|---|---|---|
| | **Valuation technique** | **Significant unobservable input** | **Range of estimates (weighted average) for unobservable inputs** | **Changes in fair value from reasonably possible alternatives** |
| Loans at FVOCI | Discounted Cash Flow | Credit risk adjustment | **2.10% - 6.42%** | **$9,057 to ($9,773)** |

| | **2020** | | | |
|---|---|---|---|---|
| | **Valuation technique** | **Significant unobservable input** | **Range of estimates (weighted average) for unobservable inputs** | **Changes in fair value from reasonably possible alternatives** |
| Loans at FVOCI | Discounted Cash Flow | Credit risk adjustment | 2.30% - 6.42% | $3,164 to ($6,062) |

The Bank holds securities for which the fair value is derived using significant unobservable inputs. Securities classified as Level 3 instruments include investments in Canadian and U.S. credit and real estate pooled funds. Pooled fund investments are valued based on estimated fair values determined using appropriate techniques and best estimates by either the investment administrator, management of the pooled fund, or appraisers. Where external appraisers are engaged to perform the valuation, the investment administrator ensures the appraisers are independent and compares the assumptions used with the administrator's expectations based on current market conditions and industry practice to ensure the valuation captures the business and economic conditions specific to the investment. Significant unobservable inputs include discount rates, capitalization rates, rent forecasts, market interest rates and credit spreads. The year end fair values of the pooled funds are provided by the investment administrator and are recorded based on net asset values. These net asset values are reviewed by management.

## 20. RELATED PARTY DISCLOSURE

Related party transactions are in the normal course of operations and are measured at the consideration established and agreed to by the parties. The following table summarizes the balances outstanding at year end and transactions during the year not noted elsewhere in the consolidated financial statements. The amounts outstanding are unsecured and will be settled in cash.

No guarantees have been given or received. Related party loan balances are included with groups of loans with similar credit risk characteristics when collectively assessing for impairment. Balances and transactions between the Bank and its subsidiary, which is a related party of the Bank, have been eliminated on consolidation and are not disclosed in this note.

The Bank has entered into transactions with the following related parties in the normal course of business:

- **SaskCentral** – SaskCentral holds 84.0% (2020 – 84.0%) of the voting common shares resulting in control of the Bank. SaskCentral provides leased facilities and various financial services to the Bank. The Bank provides consultative and administrative services to SaskCentral.
- **Celero Solutions** – an unincorporated entity of which SaskCentral owns 33.3% (2020 – 33.3%) thereby resulting in joint control. Celero Solutions provides information technology support and services to the Bank.
- **Prairie Payments Joint Venture ("PPJV")** – a joint venture of which SaskCentral holds a 33.3% (2020 – 33.3%) interest thereby resulting in significant influence. PPJV provides payment processing services to the Bank.

| | | 2021 | | 2020 |
|---|---|---|---|---|
| **SaskCentral** | | | | |
| Assets and Liabilities | | | | |
| Cash deposited with | $ | **14,923** | $ | 24,359 |
| Due from included in other assets | | **58** | | 52 |
| Interest payable to | | **5** | | 3 |
| Revenues and Expenses | | | | |
| Interest paid to | | **37** | | 60 |
| Fees for services received from | | **687** | | 643 |
| Non-interest expenses paid to | | **884** | | 1,145 |
| Other Transactions | | | | |
| Dividends paid to | | **4,512** | | 4,512 |
| Securities pledged on behalf of | | **153,564** | | 20,350 |
| Capital assets sold to | | **9** | | - |
| Lease payments paid to | | **191** | | 451 |
| **Celero Solutions** | | | | |
| Due to included in other liabilities | | **443** | | 6 |
| Capital assets purchased from | | **227** | | 28 |
| Fee-for-service paid to | | **3,071** | | 2,748 |
| **Prairie Payments Joint Venture** | | | | |
| Fee-for-service paid to | | **154** | | 93 |

### Key management compensation

The Bank has identified its directors and executive leadership team as key management personnel. The following table summarizes compensation earned by the Bank's key management for the year ended December 31:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| **Directors** | | | | |
| Honorariums and other short-term benefits | $ | **719** | $ | 641 |
| **Executive Leadership** | | | | |
| Salaries and other short-term benefits | | **4,980** | | 3,959 |
| Post-employment benefits | | **266** | | 244 |
| Other long-term benefits | | **914** | | 868 |
| Termination benefits | | **619** | | - |
| | | **6,779** | | 5,071 |
| Total key management compensation | $ | **7,498** | $ | 5,712 |

At December 31, 2021, certain directors and key management were indebted to the Bank for an amount totaling $499 (2020 - $533) and held deposits at the Bank totaling $444 (2020 - $99). The loans to and deposits held by directors were granted under the same lending policies applicable to other members. Certain management loans qualify for the staff lending program at preferential rates.

## 21. IMPACT OF COVID-19

The COVID-19 pandemic continues to have a significant adverse impact on the Canadian economy. The Bank continues to operate in an uncertain macroeconomic environment at this time.

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the recognized and measured amounts of assets, liabilities, net income, comprehensive income and related disclosures. Significant estimates and assumptions are made in the measurement of allowances for credit losses and assessing impairment of non-financial assets. Actual results could differ from these estimates and assumptions. The COVID-19 pandemic gives rise to heightened uncertainty as it relates to accounting estimates and assumptions and increases the need to apply judgement in evaluating the economic environment and its impact on significant estimates.

### 21.1 Allowance for credit losses

The uncertainty created by the COVID-19 pandemic has increased the level of judgement applied in estimating allowances for credit losses (see Note 2.4 (a)).

### 21.2 Impairment of non-financial assets

The disruption of economic activity caused by the COVID-19 pandemic required the Bank to apply a heightened level of judgement in evaluating the impact on short and long-term forecasted earnings and whether there were indicators that goodwill may have been impaired. The Bank concluded there was no evidence of impairment of goodwill.

## 22. SUBSEQUENT EVENT

On February 7, 2022, the Bank's controlling shareholder, Credit Union Central of Saskatchewan ("SaskCentral"), holding 84.0% of the voting rights of the Bank entered into a share purchase agreement with a third party to sell SaskCentral's entire ownership stake in the Bank. The third party also entered into support agreements with additional common shareholders representing a majority of the remaining 16.0% of voting rights. The sale was unanimously approved by the Boards of Directors of SaskCentral, the Bank and the third party. The sale is subject to satisfaction of customary closing conditions and receipt of regulatory approvals, including those required under the Bank Act (Canada), the Trust and Loans Companies Act (Canada), and the Competition Act (Canada).

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1.800.788.6311
answers@wyth.ca

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**SASKATOON**

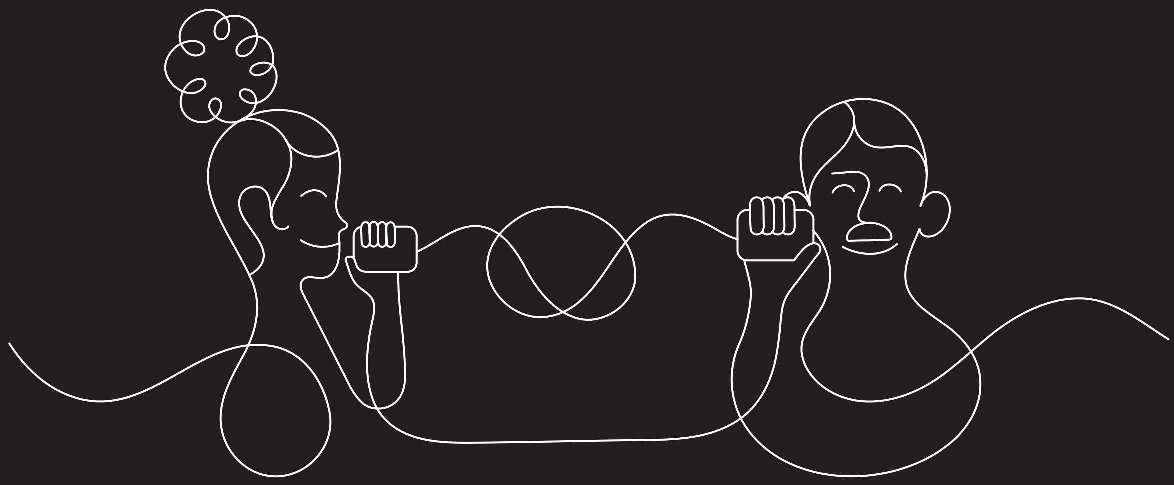
333 3rd Ave N
Saskatoon, SK S7K 2M2

**REGINA**

300-4561 Parliament Ave
Regina, SK S4W 0G3

**TORONTO**

4200–181 Bay St
PO Box 814
Toronto, ON M5J 2T3



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