Financial Statements
(In Canadian dollars)

HABIB CANADIAN BANK

(A WHOLLY OWNED SUBSIDIARY OF
HABIB BANK AG ZURICH)

And Independent Auditors' Report thereon

Year ended December 31, 2020

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Habib Canadian Bank

Opinion

We have audited the financial statements of Habib Canadian Bank (the Entity), which comprise:

- the statement of financial position as at December 31, 2020
- the statement of comprehensive income for the year then ended
- the statement of changes in shareholder's equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the 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 financial position of the Entity as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

We are independent of the 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.

KPMG

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.

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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

March 23, 2021

HABIB CANADIAN BANK

Statement of Financial Position
(In thousands of Canadian dollars)

December 31, 2020, with comparative information for 2019

	2020	2019
Assets		
Cash and cash equivalents:		
Cash	$ 349	$ 515
Interest-bearing deposits with banks	112,945	68,918
Government of Canada treasury bill	10,000	9,972
	123,294	79,405
Loans and advances (notes 3 and 4)	160,922	149,443
Other:		
Right-of-use assets, office equipment and leasehold improvements (note 5)	639	854
Deferred tax assets (note 7)	293	269
Other assets	1,022	773
	1,954	1,896
	$ 286,170	$ 230,744
Liabilities and Shareholder's Equity		
Liabilities:		
Deposits (note 6):		
Individuals	$ 130,992	$ 100,372
Businesses	104,751	82,958
Deposit-taking institutions (note 9)	14,617	11,445
	250,360	194,775
Other:		
Other liabilities	2,801	2,978
	2,801	2,978
Shareholder's equity (100% attributable to Bank's owner):		
Capital stock:		
Issued and fully paid:		
3,000,000 common shares	30,000	30,000
Retained earnings	3,009	2,991
	33,009	32,991
Commitments and contingent liabilities (note 10)		
	$ 286,170	$ 230,744

See accompanying notes to financial statements.

On behalf of the Board:

________________________ Director ________________________ Director

HABIB CANADIAN BANK

Statement of Comprehensive Income
(In thousands of Canadian dollars)

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Interest income:		
Interest-bearing deposits with banks	$ 773	$ 1,229
Interest from Government of Canada treasury bill	38	165
Loans	7,381	7,982
	8,192	9,376
Interest expense:		
Deposits	2,866	2,886
Net interest income	5,326	6,490
Provision for credit losses (note 4(c))	121	97
Net interest income after provision for credit losses	5,205	6,393
Other income (note 16)	2,264	1,729
Net interest and other income	7,469	8,122
Non-interest expenses:		
Salaries and staff benefits	3,854	3,712
Premises and equipment, including depreciation	855	882
Other	2,716	2,498
	7,425	7,092
Income before income taxes	44	1,030
Income tax expense (note 7)	26	261
Total comprehensive income (100% attributable to Bank's owner) for the year	$ 18	$ 769

See accompanying notes to financial statements.

HABIB CANADIAN BANK

Statement of Changes in Shareholder's Equity
(In thousands of Canadian dollars)

Year ended December 31, 2020, with comparative information for 2019

Share capital (100% attributable to Bank's owner), January 1, 2019	$ 30,000
Increase in share capital during the year 2019	–
Share capital (100% attributable to Bank's owner), December 31, 2019	30,000
Retained earnings, beginning of year	2,222
Adjustment on initial application of IFRS 16, net of tax	–
Total comprehensive income for the year	769
Retained earnings, end of year	2,991
Shareholder's equity (100% attributable to Bank's owner), December 31, 2019	$ 32,991
Share capital (100% attributable to Bank's owner), January 1, 2020	$ 30,000
Increase in share capital during the year 2020	–
Share capital (100% attributable to Bank's owner), December 31, 2020	30,000
Retained earnings, beginning of year	2,991
Total comprehensive income for the year	18
Retained earnings, end of year	3,009
Shareholder's equity (100% attributable to Bank's owner), December 31, 2020	$ 33,009

See accompanying notes to financial statements.

HABIB CANADIAN BANK

Statement of Cash Flows
(In thousands of Canadian dollars)

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Cash flows from (used in) operating activities:		
Total comprehensive income for the year	$ 18	$ 769
Adjustments:		
Depreciation	474	528
Provision for credit losses	121	97
Net interest income	(5,063)	(6,601)
Income tax expense	26	261
Government of Canada wage and rent subsidies	(474)	–
Gain on right-of-use assets, office equipment and leasehold improvements	(28)	–
Gain on Government of Canada treasury bill	(38)	(165)
Change in derivative assets	–	8
Change in loans and advances	(11,573)	2,906
Change in other assets	(249)	(131)
Change in derivative liabilities	–	(5)
Change in deposits from individuals	30,620	19,891
Change in deposits from businesses	21,793	(4,036)
Change in deposits from deposit-taking institutions	3,172	(10,630)
Change in other liabilities and provisions	(177)	(375)
Interest received	7,962	9,340
Interest paid	(2,899)	(2,739)
Income taxes recovered	(50)	(312)
Net cash from operating activities	43,635	8,806
Cash flows from (used in) investing activities:		
Interest-bearing deposits with banks	(44,054)	(8,816)
Government of Canada treasury bill	(62)	151
Proceeds from Government of Canada for wage and rent subsidies	474	–
Acquisition of right-of-use assets, office equipment and leasehold improvements	(187)	(59)
Proceeds from disposition of right-of-use assets, office equipment and leasehold improvements	28	–
Net cash used in investing activities	(43,801)	(8,724)
Net increase (decrease) in cash	(166)	82
Cash, beginning of year	515	433
Cash, end of year	$ 349	$ 515

See accompanying notes to financial statements.

Habib Canadian Bank (the "Bank") is a 100% owned subsidiary of Habib Bank AG Zurich, Switzerland (the "Parent"), and is licensed to operate as a bank in Canada with full banking powers under the Bank Act.

The address of the Bank's registered office is 918 Dundas Street East, Suite 1-B, Mississauga, Ontario, L4Y 4H9. The Bank was incorporated on April 5, 2000 and commenced operations on March 22, 2001.

The address of the Parent is Weinbergstrasse 59 P.O. Box 225, 8042 Zurich, Switzerland.

The financial statements of the Bank as at and for the year ended December 31, 2020 comprise the Bank as a single economic unit - the Bank has no subsidiaries, associates and other entities to be consolidated in the Bank's financial statements.

The Bank primarily is involved in corporate and retail banking, and in providing trade finance services.

Basis of preparation:

(a) Statement of compliance:

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

The financial statements were authorized for issue by the Board of Directors on March 23, 2021.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis, except for derivative financial instruments, which are measured at fair value.

(c) Functional and presentation currency:

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

Basis of preparation (continued):

(d) Use of estimates and judgments:

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The global pandemic related to an outbreak of COVID-19 has cast additional uncertainty on the assumptions used by management in making its judgments and estimates. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Bank in future periods. Given that the full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on the global economy and the Bank's business is uncertain and not predictable at this time, there is a higher level of uncertainty with respect to management's judgments and estimates.

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in note 1(a), 1(g), 1(i) and 1(j).

1. Significant accounting policies:

The following note describes the Bank's significant accounting policies. These accounting policies have been applied consistently to all periods presented in these financial statements. Accordingly, the Bank followed its accounting policies as outlined below, effective January 1, 2020:

(a) Financial instruments:

The Bank's statement of financial position consists primarily of loans and advances and interest-bearing deposits with banks and the majority of its net income is derived from income from loans and deposits with banks.

Financial instruments assets include cash and cash equivalents, interest-bearing deposits with banks, Government of Canada treasury bill, and loans and advances. Financial instrument liabilities include deposits and other liabilities.

(i) Classification, measurement and impairment of financial assets:

Classification and measurement:

A financial asset is classified and measured based on the business model in which it is managed and the contractual cash flow characteristics of the financial asset. The Bank's financial assets and financial liabilities are classified and measured at amortized cost with the exception of derivative assets and liabilities which are classified as fair value through profit and loss ("FVTPL") and measured at fair value.

Impairment:

The Bank assesses impairment of financial assets using an expected credit loss ("ECL") model. ECL is based on probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") inputs and takes into account the expected timing of the loss. The ECL model also incorporates forward-looking economic information, primarily forecasts of the unemployment rate, GDP, as well as the use of experienced credit judgment, where applicable. There is a significant amount of judgment involved in determining the ECL estimate.

1. Significant accounting policies (continued):

The Bank records an allowance for loans for which credit risk has not increased significantly since initial recognition at an amount equal to 12-month ECL ("Stage 1"). For loans that have experienced a significant increase in credit risk, the Bank recognizes an allowance at an amount equal to the lifetime ECL ("Stage 2"). The determination of a significant increase in credit risk takes into account relative changes in risk of default and includes all loans that are more than 30 days past due.

The allowance for loans that are individually identified as impaired ("Stage 3") is also measured at an amount equal to the lifetime ECL.

PD represents the likelihood that a loan will default over the following 12 months or, depending on credit deterioration from origination of the loan over the expected life of the loan. LGD is the amount that is expected not to be recovered in the event of default. EAD is the estimate of the outstanding amount of credit exposure at the time a default may occur. For undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default. These inputs are modelled based on historical data and reasonable and supportable information about future economic conditions, where appropriate.

Forward-looking macroeconomic information:

The Bank relies on a broad range of forward-looking macroeconomic factors, such as expected GDP growth and unemployment rates. The inputs used in the model for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To capture portfolio characteristics and risks, qualitative adjustments or overlays are made using management judgment.

The Bank determines ECL using three probability-weighted forward-looking scenarios obtained on a periodic basis from an external third party. These scenarios include a 'base case' scenario which represents the most likely outcome and two additional scenarios representing more optimistic and more pessimistic outcomes.

1. Significant accounting policies (continued):

Significant increase in credit risk:

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk 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 and the impact of forward-looking macroeconomic factors. For loans, significant increase in credit risk is assessed at the borrower level and considers the proportionate change in PD, as well as the absolute change in PD.

Utilization of a payment deferral program by qualified borrowers during the COVID-19 pandemic does not, all else being equal, automatically trigger a significant increase in credit risk.

Definition of default and write-off:

The Bank considers a loan to be in default as a result of one or more loss events that occurred after the loss event has a negative impact on the estimated future cash flows of the loans that can be reliably estimated. The Bank considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due.

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. In circumstances where the net realizable value of any collection has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

In subsequent periods, for any recoveries of amounts previously written-off as a result of a debt sale or other repayment, the amount is credited to the provision for credit losses.

(ii) Classification and measurement of financial liabilities:

The Bank classifies and measures its financial liabilities at amortized cost.

1. Significant accounting policies (continued):

(iii) Offsetting:

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legally enforceable right to set off the amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions, such as in the Bank's trading activity.

(iv) Amortized cost measurement:

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(v) Fair value measurement:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's-length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's-length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

1. Significant accounting policies (continued):

(b) Cash and cash equivalents:

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(c) Loans and advances:

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

In the second quarter of 2020, the Canadian Government launched the Canada Emergency Business Account Program as part of its response to COVID-19, in which the Bank issues loans that are funded by the government. The Bank determined these loans qualify for derecognition as substantially all the risks and rewards were transferred; therefore, we do not recognize these loans in the statement of financial position.

(d) Acceptances:

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers. The Bank's potential liability under acceptances is reported as a liability in the statement of financial position. The Bank's recourse against the customer in the event of a call on any of these commitments is reported as an offsetting asset of the same amount. Fees earned are reported as other income.

(e) Right-of-use assets, office equipment and leasehold improvements:

(i) Recognition and measurement:

Right-of-use assets, office equipment and leasehold improvements represent items of right-of-use assets under lease contracts, property and office equipment that are measured at cost less accumulated depreciation and accumulated impairment losses (see also note 1(m)).

1. Significant accounting policies (continued):

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property and office equipment have different useful lives, they are accounted for as separate items (major components) of property and office equipment.

The gain or loss on disposal of an item of property and office equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and office equipment, and are recognized, net within other income in profit or loss.

(ii) Subsequent costs:

The cost of replacing a part of an item of property and office equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and office equipment are recognized in profit or loss as incurred.

(iii) Depreciation:

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of right-of-use asset, property and office equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset (see also note 1(m)).

The estimated useful lives for the current and comparative years are as follows:

IT equipment	4 years
Fixtures and fittings	4 - 7 years
Automobile	5 years
Right-of-use assets under lease contracts	1 - 5 years

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

1. Significant accounting policies (continued):

(f) Foreign currency transactions:

Transactions in foreign currencies are translated into Canadian dollars at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(g) Impairment of non-financial assets:

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

(h) Deposits:

Deposits are the Bank's main sources of debt funding. Deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

1. Significant accounting policies (continued):

(i) 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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognized when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

(j) Financial guarantees and loan commitments:

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are measured at fair value.

The Bank has issued no loan commitments. Liabilities arising from financial guarantees are included within provisions.

(k) Employee benefits - defined contribution plans:

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss when they are due in respect of service rendered before the end of the reporting year. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the reporting year in which the employees render the service are discounted to their present value at the reporting date.

1. Significant accounting policies (continued):

(l) Income tax expense:

Income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred 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 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.

Additional income taxes that arise from the distribution of dividends by the Bank are recognized at the same time as the liability to pay the related dividend is recognized.

1. Significant accounting policies (continued):

(m) Leases:

A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessors continue to classify leases as finance or operating leases.

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price.

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

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

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

1. Significant accounting policies (continued):

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

(i) fixed payments, including in-substance fixed payments;

(ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

(iii) amounts expected to be payable under a residual value guarantee; and

(iv) the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

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

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

The Bank presents right-of-use assets in 'Right-of-use assets, office equipment and leasehold improvements' and lease liabilities in 'Other liabilities' in the statement of financial position.

1. Significant accounting policies (continued):

Short-term leases and leases of low-value assets:

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

(n) Derivative instruments:

Derivatives are financial instruments whose value derives largely from the price, price fluctuations and price expectations of an underlying instrument (e.g., share, bond, foreign exchange or index). Derivatives may include swaps, options and futures.

Derivative contracts used by the Bank include forward contracts. In the normal course of business, the Bank enters into derivative transactions for trading and/or risk management purposes. The Bank's objectives in using derivative instruments are to meet customers' risk management needs to manage the Bank's exposure to risks.

In accordance with the Bank's accounting policy relating to derivatives, all derivatives are carried at fair value in the statement of financial position regardless of whether they are held for trading or non-trading purposes.

(o) Interest income and expense:

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

1. Significant accounting policies (continued):

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis.

Fair value changes on derivatives held for risk management purposes are presented in other income in the statement of comprehensive income.

(p) Fees and commission:

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the drawdown of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

(q) Government assistance:

The Government of Canada provided government assistance to the Bank under the Canada Emergency Wage Subsidy ("CEWS") program and Canada Emergency Rent Subsidy ("CERS") during the year ended December 31, 2020. The government assistance received in form of subsidy has been recognized in profit and loss on a gross basis as 'Other income' during this period (see also note 16).

2. Nature and extent of risk arising from financial instruments:

Risk management framework overview:

The primary goal of risk management at the Bank is to minimize risk. Risk is anything that will cause a desired objective not to be achieved. Risk, in varying degrees, is present in virtually all business activities of financial institutions and the Bank recognizes that it is an unavoidable consequence of doing business. The key objectives of the risk management process are to ensure that the outcome of risk-taking activities is within the Bank's risk tolerance, and that there is an appropriate balance between risk and reward. Accordingly, the Bank does not seek to avoid risk, but to manage it in a controlled manner commensurate with the expected reward.

The Board of Directors (the "Board") establishes a culture with respect to the Bank's overall risk appetite and has overall responsibility for risk management. They review and approve risk management strategies, policies, standards and key limits. The Board ensures there are sufficient and qualified risk management resources across the Bank to meet the risk management objectives. The Board, directly or through its committees, the Audit Committee and Conduct Review and Risk Management Committee, receives regular updates on the key risks of the Bank.

Risks are managed by the senior management of the Bank within the policies and limits established by the Board. Senior management plays a key role in the risk management process and is responsible for implementation of the policies and establishing a control environment by developing processes to monitor and measure risk and ensure compliance with laws and regulations.

The Internal Audit of the Parent independently monitors and reports to senior management and the Board on the effectiveness of risk management policies, procedures and internal controls. The Internal Audit has unrestricted access to the Bank's staff, information and records and to the Audit Committee. The Bank's enterprise risk framework and risk management processes are reviewed by the Internal Audit annually.

There was no significant change in the risk management framework from the previous year.

2. Nature and extent of risk arising from financial instruments (continued):

The Bank is exposed to four major types of risk: credit, liquidity, market (all from its use of financial instruments) and operational as follows:

(a) Credit risk:

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment debt securities.

The Bank manages credit risk through specific credit policies that are approved by the Board. These policies set out the procedures for identifying and measuring credit risk, evaluating and approving credit, ongoing monitoring and managing such risk.

The Bank created the Bank's Credit Committee for the oversight of credit risk. A separate Bank's Credit Function, reporting to the Bank's Credit Committee, is responsible for managing the Bank's credit risk, including the following.

(i) Implementation of credit policies, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

(ii) Adherence to the authorization structure set for the approval and renewal of credit facilities.

(iii) Authorization limits are allocated to designated Senior Management Officers. Larger facilities require approval by the Bank Credit Committee, the Board of Directors, or the Parent Bank's Credit Committee, as appropriate.

(iv) Reviewing and assessing credit risk: Bank Credit Function assesses all credit exposures in excess of designated limits, before facilities are committed to customers. Renewals and reviews of facilities are subject to the same review process.

(v) Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities and banks), as appropriate.

2. Nature and extent of risk arising from financial instruments (continued):

(vi) Developing and maintaining the Bank's risk gradings to categorize exposures according to the degree of risk of default.

(vii) Maintaining of and adherence to the Bank's processes for measuring ECL: This includes processes for:

(a) determining and monitoring significant increase in credit risk; and

(b) incorporation of forward-looking information.

(viii) Reviewing compliance with agreed exposure limits, including those for selected industries, country risk and product types as set by the Bank's credit policies. Regular reports on the credit quality of the portfolios are provided to Bank's Credit Committee, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.

(ix) Providing advice, guidance and specialist skills to promote best practice throughout the Bank in the management of credit risk.

The Bank's Credit Committee provided initial approval, regular validation and back-testing of the models used for measuring ECL.

The Credit Function is required to implement Bank credit policies and procedures, with credit approval authorities delegated from the Bank Credit Committee and Board of Directors. The Bank has a Senior Credit Risk Officer who reports on all credit-related matters to Senior management and the Bank Credit Committee. The Credit Function is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to Parent Bank's Credit Committee approval.

Regular audits of Bank credit processes are undertaken by the Bank's internal audit group.

(In thousands of Canadian dollars)

2. Nature and extent of risk arising from financial instruments (continued):

(b) Liquidity risk:

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows.

The Bank manages liquidity risk through specific policies that are approved by the Board. The Bank constantly maintains a high level of liquidity by keeping substantial balances in liquid assets and in short-term interbank placements. To ensure that the Bank has sufficient liquid assets on hand, the key liquidity risk management tools include the use of an automated tool for measuring any mismatch in the liquidity positions to determine funding requirements, monitoring the level of core and large deposits, control of concentration limits, and the computation of liquidity requirements under stressed conditions on a regular basis.

The tables below present the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the tables are the contractual undiscounted cash flows.

2020	Up to 1 month	1 - 3 months	3 months to 1 year	Over 1 year	No specific maturity	Total
Assets						
Cash resources	$ 104,714	$ 2,692	$ 5,957	$ –	$ (69)	$ 113,294
Government of Canada treasury bill	10,000	–	–	–	–	10,000
Loans	19,705	24,826	47,197	70,598	(1,404)	160,922
Other	–	–	–	–	1,954	1,954
Total	134,419	27,518	53,154	70,598	481	286,170
Liabilities and Shareholder's Equity						
Liabilities:						
Deposits	163,116	7,070	45,580	34,594	–	250,360
Other	–	–	–	–	2,801	2,801
Shareholder's equity	–	–	–	–	33,009	33,009
Total	163,116	7,070	45,580	34,594	35,810	286,170
Total gap	$ (28,697)	$ 20,448	$ 7,574	$ 36,004	$ (35,329)	$ –

(In thousands of Canadian dollars)

2. Nature and extent of risk arising from financial instruments (continued):

2019	Up to 1 month	1 - 3 months	3 months to 1 year	Over 1 year	No specific maturity	Total
Assets						
Cash resources	$ 68,138	$ 1,226	$ 111	$ –	$ (42)	$ 69,433
Government of Canada treasury bill	9,972	–	–	–	–	9,972
Loans	15,329	15,018	31,587	88,820	(1,311)	149,443
Other	–	–	–	–	1,896	1,896
Total	93,439	16,244	31,698	88,820	543	230,744
Liabilities and Shareholder's Equity						
Liabilities:						
Deposits	110,516	6,275	34,998	42,986	–	194,775
Other	–	–	–	–	2,978	2,978
Shareholder's equity	–	–	–	–	32,991	32,991
Total	110,516	6,275	34,998	42,986	35,969	230,744
Total gap	$ (17,077)	$ 9,969	$ (3,300)	$ 45,834	$ (35,426)	$ –

(c) Market risk:

Market risk is a risk of loss due to changes in interest and foreign currency rates. The Bank manages these risks through specific policies that are approved by the Board.

Interest rate risk arises from the impact that changes in interest rates may have on income due to the mismatch between variable rate asset and liability positions. The Bank does a maturity mapping for liquidity and a scenario analysis for interest rate risk, whereby the impact of certain predefined interest rate movements within each maturity bracket are analyzed and compared to a benchmark.

Foreign currency risk is the risk of loss due to changes in foreign exchange rates. Foreign exchange activities are customer-related and the Bank does not execute foreign exchange transactions on its own account, except to hedge or cover open positions.

2. Nature and extent of risk arising from financial instruments (continued):

(d) Operational risk:

Operational risk is the risk of loss resulting from external events, human error or from inadequate or failed internal processes and systems.

The Bank has established policies that have been approved by the Board to manage and control this risk. Operations and the handling of day-to-day risks are the responsibility of management. In this regard, detailed operating procedures have been developed with built-in checks and balances.

(e) Capital management:

Regulatory capital for the Bank is regulated pursuant to guidelines issued by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). Beginning in 2013, OSFI's regulatory capital guidelines under Basel III allow for two tiers of capital. The Bank's CET1 capital includes common shares, retained earnings and accumulated other comprehensive income. The Bank currently does not hold any additional Tier 1 capital instruments. The Bank's Tier 2 capital includes eligible Stage 1 and Stage 2 ECL allowance amount only. The CET1, Tier 1, Tier 2, and Total regulatory capital are calculated and reported under IFRS.

Regulatory ratios are calculated by dividing CET1, Tier 1 and Total capital by risk-weighted assets ("RWA"). The calculation of RWA is determined by OSFI-prescribed rules relating to on-balance sheet and off-balance sheet exposures and included an amount for the market risk exposure associated with trading portfolios. In addition, OSFI formally established risk-based capital targets for deposit-taking institutions: a target CET1 ratio of 7% and a target Total capital ratio of 10.5%.

In accordance with OSFI "Leverage Requirements Guideline" (2019), the leverage ratio is defined as Tier 1 capital divided by leverage ratio exposure. The leverage ratio exposure is the sum of (i) on-balance sheet exposures; (ii) derivative exposures; (iii) securities financing transaction exposures; and (iv) off-balance sheet items. Canadian banks are required to maintain a leverage ratio that meets or exceeds a minimum leverage ratio level prescribed by OSFI at all times.

2. Nature and extent of risk arising from financial instruments (continued):

The Bank's CET1, Tier 1, Tier 2 and Total capital and ratios for the year ended December 31, 2020 and comparative information for the prior year have been calculated using Basel III (Standardized Approach). The Bank has complied with all regulatory-imposed capital requirements at year end.

(f) Internal Capital Adequacy Assessment Process:

In October 2010, OSFI issued a Guideline E-19, Internal Capital Adequacy Assessment Process ("ICAAP") for Deposit-Taking Institutions, to outline their expectations with respect to an institution's internal capital adequacy process, as described in Part 3 of the Basel II Framework. It is OSFI's expectation that every federally regulated financial institution ("FRFI"), including Canadian subsidiaries of foreign banks, will put into place an ICAAP that covers the operations from the top level regulated entity in Canada. In all instances, the ICAAP should reflect the FRFI's own circumstances, and not just those of a related group.

The Bank developed its own detailed ICAAP document in accordance with OSFI expectations that covers the following six main components:

(i) Board and senior management oversight;

(ii) Sound capital assessment and planning;

(iii) Comprehensive assessment of risks;

(iv) Stress testing;

(v) Monitoring and reporting; and

(vi) Internal control review.

(In thousands of Canadian dollars)

3. Exposure to credit risk:

As at the financial statement date, all financial assets measured at amortized cost, with the exception of loans and advances, are due to be settled within the short term. The Bank considers the probability of default to be close to zero as these instruments have a low frequency of default and the counterparties are expected to have the capacity to meet their contractual obligations in the near term.

An analysis of the Bank's loans and advances to customers, by category and concentration by location of ultimate risk, is as follows:

	2020	2019
Loans and advances at amortized cost:		
Canada:		
Commercial mortgages	$ 70,784	$ 63,121
Residential mortgages	43,978	44,500
Business loans	33,149	31,232
Personal loans	632	1,214
	148,543	140,067
Other:		
Residential mortgages	2,506	1,396
Business loans	11,256	9,258
Personal loans	21	33
	13,783	10,687
Total loans	162,326	150,754
Allowance for credit losses	1,404	1,311
Total net loans	$ 160,922	$ 149,443

As at December 31, 2020, total loans and advances include $11,134 (2019 - $9,792) denominated in foreign currencies.

The Bank's maximum exposure to credit risk is the carrying value of its financial assets.

3. Exposure to credit risk (continued):

The following tables presents the gross carrying amounts of loans and advances stratified by internal risk rating categories used by the Bank for credit risk management purposes. The internal risk rating categories presented in the table below are defined as follows:

Satisfactory (internal risk ratings 1 - 6): Loan and advances that exceed the credit risk profile standard of the Bank with an average or below average probability of default and are typical for the Bank's risk appetite, credit standards and retain a typical or below average probability of default. These loans and advances are expected to have average or lower than the average yields and would represent a significant percentage of the overall portfolio.

Especially mentioned (internal risk ratings 7 - 9): Loan and advances within the Bank's risk appetite and credit standards that have an additional element of credit risk that could result in an above average probability of default. These loan and advances carry a yield premium in return for their incremental credit risk. These loans and advances are expected to represent a small percentage of the overall portfolio.

Substandard (internal risk ratings 10): Loan and advances that are not within the Bank's risk appetite and credit standards and that have an additional element of credit risk that could result in high probability (close to default) of default. These loans and advances are expected to represent a small percentage of the overall portfolio.

Doubtful and Loss (internal risk ratings D1 and D2): Loan and advances that are 90 days past due and when there is objective evidence that there has been a deterioration of credit quality to the extent the Bank no longer has reasonable assurance as to the timely collection of the full amount of principal and interest and/or when the Bank has commenced enforcement remedies available to it under its contractual agreements.

(In thousands of Canadian dollars)

3. Exposure to credit risk (continued):

				2020
Commercial mortgages	Stage 1	Stage 2	Stage 3	Total
Satisfactory (ratings 1 - 6)	$ 66,654	$ –	$ –	$ 66,654
Especially mentioned (ratings 7 - 9)	–	–	–	–
Substandard (rating 10)	–	–	3,732	3,732
Doubtful and loss (rating D1 and D2)	–	–	398	398
Gross carrying amount	66,654	–	4,130	70,784
ECL allowance	(196)	–	(500)	(696)
Net carrying amount, December 31, 2020	$ 66,458	$ –	$ 3,630	$ 70,088

				2019
Commercial mortgages	Stage 1	Stage 2	Stage 3	Total
Satisfactory (ratings 1 - 6)	$ 58,118	$ –	$ –	$ 58,118
Especially mentioned (ratings 7 - 9)	–	–	–	–
Substandard (rating 10)	–	–	1,256	1,256
Doubtful and loss (rating D1 and D2)	–	–	3,747	3,747
Gross carrying amount	58,118	–	5,003	63,121
ECL allowance	(171)	–	(500)	(671)
Net carrying amount, December 31, 2019	$ 57,947	$ –	$ 4,503	$ 62,450

(In thousands of Canadian dollars)

3. Exposure to credit risk (continued):

				2020
Residential mortgages	Stage 1	Stage 2	Stage 3	Total
Satisfactory (ratings 1 - 6)	$ 41,727	$ –	$ –	$ 41,727
Especially mentioned (ratings 7 - 9)	–	1,846	–	1,846
Substandard (rating 10)	–	–	2,911	2,911
Doubtful and loss (rating D1 and D2)	–	–	–	–
Gross carrying amount	41,727	1,846	2,911	46,484
ECL allowance	(99)	(19)	–	(118)
Net carrying amount, December 31, 2020	$ 41,628	$ 1,827	$ 2,911	$ 46,366

				2019
Residential mortgages	Stage 1	Stage 2	Stage 3	Total
Satisfactory (ratings 1 - 6)	$ 40,983	$ –	$ –	$ 40,983
Especially mentioned (ratings 7 - 9)	–	–	–	–
Substandard (rating 10)	–	–	4,913	4,913
Doubtful and loss (rating D1 and D2)	–	–	–	–
Gross carrying amount	40,983	–	4,913	45,896
ECL allowance	(99)	–	–	(99)
Net carrying amount, December 31, 2019	$ 40,884	$ –	$ 4,913	$ 45,797

(In thousands of Canadian dollars)

3. Exposure to credit risk (continued):

				2020
Business loans	Stage 1	Stage 2	Stage 3	Total
Satisfactory (ratings 1 - 6)	$ 41,900	$ –	$ –	$ 41,900
Especially mentioned (ratings 7 - 9)	–	–	–	–
Substandard (rating 10)	–	–	2,479	2,479
Doubtful and loss (rating D1 and D2)	–	–	26	26
Gross carrying amount	41,900	–	2,505	44,405
ECL allowance	(385)	–	(200)	(585)
Net carrying amount, December 31, 2020	$ 41,515	$ –	$ 2,305	$ 43,820

				2019
Business loans	Stage 1	Stage 2	Stage 3	Total
Satisfactory (ratings 1 - 6)	$ 37,726	$ –	$ –	$ 37,726
Especially mentioned (ratings 7 - 9)	–	–	–	–
Substandard (rating 10)	–	–	2,760	2,760
Doubtful and loss (rating D1 and D2)	–	–	4	4
Gross carrying amount	37,726	–	2,764	40,490
ECL allowance	(336)	–	(200)	(536)
Net carrying amount, December 31, 2019	$ 37,390	$ –	$ 2,564	$ 39,954

(In thousands of Canadian dollars)

3. Exposure to credit risk (continued):

	Stage 1	Stage 2	Stage 3	2020 Total
Personal loans				
Satisfactory (ratings 1 - 6)	$ 592	$ –	$ –	$ 592
Especially mentioned (ratings 7 - 9)	–	–	–	–
Substandard (rating 10)	–	–	–	–
Doubtful and loss (rating D1 and D2)	–	–	61	61
Gross carrying amount	592	–	61	653
ECL allowance	(6)	–	–	(6)
Net carrying amount, December 31, 2020	$ 586	$ –	$ 61	$ 647

	Stage 1	Stage 2	Stage 3	2019 Total
Personal loans				
Satisfactory (ratings 1 - 6)	$ 1,247	$ –	$ –	$ 1,247
Especially mentioned (ratings 7 - 9)	–	–	–	–
Substandard (rating 10)	–	–	–	–
Doubtful and loss (rating D1 and D2)	–	–	–	–
Gross carrying amount	1,247	–	–	1,247
ECL allowance	(5)	–	–	(5)
Net carrying amount, December 31, 2019	$ 1,242	$ –	$ –	$ 1,242

(In thousands of Canadian dollars)

3. Exposure to credit risk (continued):

An analysis of the Bank's exposure to credit risk by sector and classes of financial instruments is as follows:

					2020	2019
	At amortized cost			At FVTPL		
	Outstanding	Undrawn commitments	Other(1)	Over-the-counter ("OTC") derivatives(2)	Total exposure(3)	Total exposure(3)
Personal						
Residential mortgages	$ 46,484	$ 2,980	$ –	$ –	$ 49,464	$ 49,329
Personal loans	653	912	–	–	1,565	2,285
Total	47,137	3,892	–	–	51,029	51,614
Business						
Steel wholesale	19,199	1,970	234	–	21,403	18,897
Real estate	80,678	316	3,134	–	84,128	78,281
Clothing and textile wholesale	5,060	1,973	–	–	7,033	6,228
Hospitality and lodging	3,759	–	–	–	3,759	3,747
Other	6,493	8,770	198	–	15,461	12,418
Total	115,189	13,029	3,566	–	131,784	119,571
Total exposure	$ 162,326	$ 16,921	$ 3,566	$ –	$ 182,813	$ 171,185

(1)Includes contingent liabilities, such as letters of credit and guarantees.
(2)Includes foreign exchange forward replacement values.
(3)Total exposure represents gross exposure upon the default of an obligor. This amount is before allowance for credit losses and does not reflect the impact of credit risk mitigation.

(In thousands of Canadian dollars)

3. Exposure to credit risk (continued):

Collateral and other security enhancements:

The Bank holds collateral against business and personal loans in the form of mortgage interest over property, other security over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated, except when a loan is renewed or individually assessed as impaired. An estimate of the fair value of collateral and other security enhancements held against business and personal loans is shown below:

	Loan outstanding		Collateral security	
	2020	2019	2020	2019
Property	$ 138,821	$ 131,897	$ 298,819	$ 280,078
Cash and term deposits	3,360	3,700	3,360	3,700
Other	19,832	14,873	19,832	14,873
Unsecured	313	284	–	–
Total	$ 162,326	$ 150,754	$ 322,011	$ 298,651

4. Past due and impaired assets and allowance for credit losses:

(a) At December 31, 2020, the Bank had individually impaired loans of $9,607 (2019 - $12,675). As at December 31, 2020, the Bank had past due loans of $5,333 (2019 - $5,521).

(b) Key sources of estimation uncertainty in determining the allowances for credit losses:

The Bank classifies all loans that are contractually 90 days in arrears as impaired and in Stage 3.

Assets accounted for at amortized cost are evaluated for impairment on a basis described in accounting policy (note 1).

The components of the Stage 3 allowance for credit losses are evaluated individually and are based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash inflows, management makes judgments about a counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, workout strategy and estimate of cash flows considered recoverable.

4. Past due and impaired assets and allowance for credit losses (continued):

(c) The Bank's allowance for credit losses:

The following tables provide a reconciliation of the closing balances of the allowance for credit losses for years ended on December 31, 2019 and December 31, 2020. The reconciling items shown below comprise the following components:

(i) net originations, which reflects both the increase in the allowance related to financial assets originated during the year, and the decrease in the allowance related to financial assets derecognized during the year that did not incur a credit loss;

(ii) transfers between stages, which are assumed to occur prior to any corresponding remeasurement of the allowance;

(iii) net impact of remeasurements and changes to the models and inputs used to calculate the ECL, including those related to modifications of forward-looking indicators, which include macroeconomic conditions;

(iv) write-offs of financial assets deemed uncollectible; and

(v) recoveries.

(In thousands of Canadian dollars)

4. Past due and impaired assets and allowance for credit losses (continued):

Commercial mortgages	Stage 1	Stage 2	Stage 3	2020 Total
ECL allowance, beginning of year	$ 171	$ –	$ 500	$ 671
Net originations	23	–	–	23
Transfers in (out) to:				
Stage 1:	14	(14)	–	–
Stage 2:	–	14	(14)	–
Stage 3:	–	–	–	–
Net remeasurements, changes to models and inputs used for ECL calculation:	(12)	–	14	2
Write-offs:	–	–	–	–
Recoveries:	–	–	–	–
ECL allowance, end of year	$ 196	$ –	$ 500	$ 696

Commercial mortgages	Stage 1	Stage 2	Stage 3	2019 Total
ECL allowance, beginning of year	$ 174	$ –	$ 700	$ 874
Net originations	(7)	–	–	(7)
Transfers in (out) to:				
Stage 1:	–	–	–	–
Stage 2:	–	–	–	–
Stage 3:	(1)	–	1	–
Net remeasurements, changes to models and inputs used for ECL calculation:	5	–	(201)	(196)
Write-offs:	–	–	–	–
Recoveries:	–	–	–	–
ECL allowance, end of year	$ 171	$ –	$ 500	$ 671

(In thousands of Canadian dollars)

4. Past due and impaired assets and allowance for credit losses (continued):

Residential mortgages	Stage 1	Stage 2	Stage 3	2020 Total
ECL allowance, beginning of year	$ 99	$ –	$ –	$ 99
Net originations	(4)	(3)	–	(7)
Transfers in (out) to:	–	–	–	–
Stage 1:	–	–	–	–
Stage 2:	–	22	(22)	–
Stage 3:	–	–	–	–
Net remeasurements, changes to models and inputs used for ECL calculation:	4	–	22	26
Write-offs:	–	–	–	–
Recoveries:	–	–	–	–
ECL allowance, end of year	$ 99	$ 19	$ –	$ 118

Residential mortgages	Stage 1	Stage 2	Stage 3	2019 Total
ECL allowance, beginning of year	$ 54	$ –	$ –	$ 54
Net originations	7	–	–	7
Transfers in (out) to:				–
Stage 1:	–	–	–	–
Stage 2:	–	–	–	–
Stage 3:	(5)	–	5	–
Net remeasurements, changes to models and inputs used for ECL calculation:	43	–	(5)	38
Write-offs:	–	–	–	–
Recoveries:	–	–	–	–
ECL allowance, end of year	$ 99	$ –	$ –	$ 99

(In thousands of Canadian dollars)

4. Past due and impaired assets and allowance for credit losses (continued):

				2020
Business loans	Stage 1	Stage 2	Stage 3	Total
ECL allowance, beginning of year	$ 336	$ –	$ 200	$ 536
Net originations	30	–	–	30
Transfers in (out) to:				
Stage 1:	1	(1)	–	–
Stage 2:	–	1	(1)	–
Stage 3:	–	–	–	–
Net remeasurements, changes to models and inputs used for ECL calculation:	17	–	1	18
Write-offs:	–	–	–	–
Recoveries:	–	–	–	–
ECL allowance, end of year	$ 384	$ –	$ 200	$ 584

				2019
Business loans	Stage 1	Stage 2	Stage 3	Total
ECL allowance, beginning of year	$ 305	$ –	$ –	$ 305
Net originations	13	–	–	13
Transfers in (out) to:				
Stage 1:	–	–	–	–
Stage 2:	–	–	–	–
Stage 3:	(16)	–	16	–
Net remeasurements, changes to models and inputs used for ECL calculation:	34	–	184	218
Write-offs:	–	–	–	–
Recoveries:	–	–	–	–
ECL allowance, end of year	$ 336	$ –	$ 200	$ 536

4. Past due and impaired assets and allowance for credit losses (continued):

				2020
Personal loans	Stage 1	Stage 2	Stage 3	Total
ECL allowance, beginning of year	$ 5	$ –	$ –	$ 5
Net originations	1	–	–	1
Transfers in (out) to:				
Stage 1:	–	–	–	–
Stage 2:	–	–	–	–
Stage 3:	–	–	–	–
Net remeasurements, changes to models and inputs used for ECL calculation:	–	–	–	–
Write-offs:	–	–	–	–
Recoveries:	–	–	–	–
ECL allowance, end of year	$ 6	$ –	$ –	$ 6

				2019
Personal loans	Stage 1	Stage 2	Stage 3	Total
ECL allowance, beginning of year	$ 3	$ –	$ –	$ 3
Net originations	2	–	–	2
Transfers in (out) to:				
Stage 1:	–	–	–	–
Stage 2:	–	–	–	–
Stage 3:	–	–	–	–
Net remeasurements, changes to models and inputs used for ECL calculation:	–	–	–	–
Write-offs:	–	–	–	–
Recoveries:	–	–	–	–
ECL allowance, end of year	$ 5	$ –	$ –	$ 5

(In thousands of Canadian dollars)

4. Past due and impaired assets and allowance for credit losses (continued):

				2020
Interest-bearing deposits with banks	Stage 1	Stage 2	Stage 3	Total
ECL allowance, beginning of year	$ 42	$ –	$ –	$ 42
Net originations	27	–	–	27
Transfers in (out) to:				
Stage 1:	–	–	–	–
Stage 2:	–	–	–	–
Stage 3:	–	–	–	–
Net remeasurements, changes to models and inputs used for ECL calculation:	–	–	–	–
Write-offs:	–	–	–	–
Recoveries:	–	–	–	–
ECL allowance, end of year	$ 69	$ –	$ –	$ 69

				2019
Interest-bearing deposits with banks	Stage 1	Stage 2	Stage 3	Total
ECL allowance, beginning of year	$ 22	$ –	$ –	$ 22
Net originations	12	–	–	12
Transfers in (out) to:				
Stage 1:	–	–	–	–
Stage 2:	–	–	–	–
Stage 3:	–	–	–	–
Net remeasurements, changes to models and inputs used for ECL calculation:	8	–	–	8
Write-offs:	–	–	–	–
Recoveries:	–	–	–	–
ECL allowance, end of year	$ 42	$ –	$ –	$ 42

4. Past due and impaired assets and allowance for credit losses (continued):

Financial guarantees	Stage 1	Stage 2	Stage 3	2020 Total
ECL allowance, beginning of year	$ 7	$ –	$ –	$ 7
Net originations	–	–	–	–
Transfers in (out) to:				
Stage 1:	–	–	–	–
Stage 2:	–	–	–	–
Stage 3:	–	–	–	–
Net remeasurements, changes to models and inputs used for ECL calculation:	–	–	–	–
Write-offs:	–	–	–	–
Recoveries:	–	–	–	–
ECL allowance, end of year	$ 7	$ –	$ –	$ 7

Financial guarantees	Stage 1	Stage 2	Stage 3	2019 Total
ECL allowance, beginning of year	$ 5	$ –	$ –	$ 5
Net originations	1	–	–	1
Transfers in (out) to:				
Stage 1:	–	–	–	–
Stage 2:	–	–	–	–
Stage 3:	–	–	–	–
Net remeasurements, changes to models and inputs used for ECL calculation:	1	–	–	1
Write-offs:	–	–	–	–
Recoveries:	–	–	–	–
ECL allowance, end of year	$ 7	$ –	$ –	$ 7

(In thousands of Canadian dollars)

4. Past due and impaired assets and allowance for credit losses (continued):

An aggregate analysis of the ECL allowance by financial assets category is as follows:

	ECL allowance as at December 31, 2019				ECL allowance as at December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	State 3	Total
Commercial mortgages	$ 171	$ –	$ 500	$ 671	$ 196	$ –	$ 500	$ 696
Residential mortgages	99	–	–	99	99	19	–	118
Business loans	336	–	200	536	384	–	200	584
Personal loans	5	–	–	5	6	–	–	6
Interest-bearing deposits with banks	42	–	–	42	69	–	–	69
Government of Canada treasury bill	–	–	–	–	–	–	–	–
Financial guarantees	7	–	–	7	7	–	–	7
Total allowance for credit losses	$ 660	$ –	$ 700	$ 1,360	$ 761	$ 19	$ 700	$ 1,480

(In thousands of Canadian dollars)

4. Past due and impaired assets and allowance for credit losses (continued):

(d) Loans with renegotiated terms:

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider.

At December 31, 2020 and 2019, the Bank had no loans with renegotiated terms.

5. Right-of-use assets, office equipment and leasehold improvements:

(a) Leases as lessee:

The Bank leases a number of branch and office premises. The leases typically run for a period of five years, with an option to renew the lease after that date. For some leases, payments are renegotiated every five years to reflect market rentals. Information about leases for which the Bank is a lessee is presented below.

ROU assets relate to leased branch and office premises that are presented within ROU assets, office equipment and leasehold improvements (see note 5(b) below).

ROU assets:

	2020	2019
Balance at January 1	$ 451	$ 630
Depreciation charge for the year	180	179
Additions	71	–
Balance at December 31	$ 342	$ 451

See note 2 for maturity analysis that includes lease liabilities as at December 31, 2020.

(In thousands of Canadian dollars)

5. Right-of-use assets, office equipment and leasehold improvements (continued):

Amounts recognized in profit or loss:

	2020	2019
Interest on lease liabilities	$ 10	$ 15
Variable lease payments (service component) not included in measurement of lease liabilities	$ 159	$ 158

Amounts recognized in statement of cash flows:

	2020	2019
Total cash outflow	$ 349	$ 351

Extension options:

Some leases of office premises contain extension options exercisable by the Bank up to one year before the end of the non-cancellable contract period. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

5. Right-of-use assets, office equipment and leasehold improvements (continued):

(b) ROU assets, office equipment and leasehold improvements:

	Cost	Accumulated depreciation	2020 Net book value	2019 Net book value
ROU assets, office equipment and leasehold improvements	$ 3,296	$ 2,657	$ 639	$ 854

Depreciation (including ROU assets depreciation) for the year amounted to $474 (2019 - $528).

(In thousands of Canadian dollars)

5. Right-of-use assets, office equipment and leasehold improvements (continued):

	Office equipment	Leasehold improvements	Total
Cost			
Balance, January 1, 2019	$ 1,662	$ 773	$ 2,435
Recognition of ROU assets on initial application of IFRS 16	630	–	630
Adjusted balance at January 1, 2019	2,292	773	3,065
Acquisitions	59	–	59
Balance, December 31, 2019	$ 2,351	$ 773	$ 3,124
Balance, January 1, 2020	$ 2,351	$ 773	$ 3,124
Acquisitions	259	–	259
Dispositions	(87)	–	(87)
Balance, December 31, 2020	$ 2,523	$ 773	$ 3,296
Depreciation and impairment losses			
Balance, January 1, 2019	$ 1,170	$ 572	$ 1,742
Depreciation	444	84	528
Balance, December 31, 2019	$ 1,614	$ 656	$ 2,270
Balance, January 1, 2020	$ 1,614	$ 656	$ 2,270
Depreciation	395	79	474
Dispositions	(87)	–	(87)
Balance, December 31, 2020	$ 1,922	$ 735	$ 2,657
Carrying amounts			
Balance at January 1, 2019	$ 1,122	$ 201	$ 1,323
Balance, December 31, 2019	737	117	854
Balance, December 31, 2020	601	38	639

The Bank has no capitalized borrowing costs related to the acquisition of equipment or related to internal development. The Bank has no intangible assets.

(In thousands of Canadian dollars)

6. Deposits:

The following is an analysis of the Bank's deposits by category:

	Payable on demand	Payable after notice	Payable on fixed date	2020 Total	2019 Total
Individuals	$ 69,085	$ 11,144	$ 50,763	$ 130,992	$ 100,372
Businesses	44,232	13,346	47,173	104,751	82,958
Deposit-taking institutions	5,867	–	8,750	14,617	11,445
Total deposits	$ 119,184	$ 24,490	$ 106,686	$ 250,360	$ 194,775

As at December 31, 2020, total deposits include $62,703 (2019 - $44,191) denominated in foreign currencies.

7. Income taxes:

(a) Income tax expense:

	2020	2019
Current tax expense	$ 50	$ 312
Deferred tax expense	(24)	(51)
Total income tax expense	$ 26	$ 261

Reconciliation of effective tax rate:

	2020	2019
Income before income taxes	$ 44	$ 1,030
Income tax using the statutory tax rate of 26.5% (2019 - 26.5%)	$ 12	$ 273
Other	14	(12)
Total income tax expense	$ 26	$ 261

(In thousands of Canadian dollars)

7. Income taxes (continued):

(b) Deferred tax assets and liabilities:

Deferred tax assets are attributable to the following:

	2020	2019
Office equipment and leasehold improvements	$ 30	$ 29
Allowance for impairment	225	193
Deferred income	38	47
	$ 293	$ 269

8. Segmented information:

(a) An analysis of the Bank's aggregate outstanding interest-bearing deposits with banks, loans and acceptances by geographic segment, on the basis of the location of ultimate risk, is as follows:

	2020	2019
Canada	$ 261,738	$ 215,942
United Kingdom	3,112	2,581
United States	7,448	6,596
Other	11,569	3,214
Total	$ 283,867	$ 228,333

(b) Total interest income, based on country of residence of the borrower, is as follows:

	2020	2019
Canada	$ 7,929	$ 9,261
United Kingdom	8	12
United States	8	38
Other	247	65
Total	$ 8,192	$ 9,376

9. Related party transactions:

In the normal course of business, the Bank enters into transactions with its key management personnel (directors and officers and their interests), the Parent and companies under common control.

As at December 31, 2020, deposits payable to the Bank's Parent and companies under common control amounted to $13,891 (2019 - $11,288) and deposits receivable amounted to $3,140 (2019 - $2,609). Interest of $102 (2019 - $215) was paid to the Bank's Parent and companies under common control in respect of deposits payable, and interest of $8 (2019 - $12) was received in respect of deposits receivable. Interest rates paid on deposits from related parties were at the rates that would be charged in an arm's-length transaction.

The Bank has loans to directors and officers and their interests in the amount of $1,159 as at December 31, 2020 (2019 - $1,286). The mortgages and secured loans granted are secured over property of the respective borrowers. Interest of $55 (2019 - $63) was received in respect to these loans. Interest rates charged on balances outstanding from related parties were at the rates that would be charged in an arm's-length transaction. No impairment losses have been recorded against balances outstanding during the year with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at year end.

Management fees of $1,097 (2019 - $942) were paid by the Bank to its Parent.

Key management personnel compensation for the year was $1,471 (2019 - $1,430). This includes all short- and long-term wages and benefits, including directors' fees and the amount allocated to the Bank by the Parent.

10. Commitments and contingent liabilities:

Credit commitments:

In the normal course of business, the Bank enters into various commitments to meet the credit requirements of its customers.

Such commitments at December 31, 2020 include:

(a) $3,566 (2019 - $5,562) for financial guarantees, documentary and commercial letters of credit and standby letters of credit, which require the Bank to honour drafts presented by third parties upon completion of specific activities or make payments where the customer is unable to meet financial obligations. In the event of a call on these commitments, the Bank has recourse against its customers; and

(b) $16,921 (2019 - $14,869) for commitments to extend credit, which represent undertakings to make credit available in the form of loans or other financings, subject to certain conditions.

(In thousands of Canadian dollars)

11. Interest rate sensitivity:

The following table summarizes statement of financial position assets, liabilities and shareholder's equity to arrive at the Bank's interest rate gap based on the earlier of contractual repricing and maturity dates:

	Floating rate	Within 3 months	3 months to 1 year	1 - 5 years	Non-rate sensitive	2020 Total	2019 Total
Assets							
Cash resources	$ 93,627	$ 10,166	$ 6,000	$ –	$ 3,501	$ 113,294	$ 69,433
	0.63%	1.22%	0.75%	–	–	0.67%	1.71%
Government of Canada treasury bill	–	10,000	–	–	–	10,000	9,972
	–	0.62%	–	–		0.62%	1.69%
Loans and advances	159,405	225	1,739	956	1	162,326	150,754
	4.34%	4.10%	3.90%	3.15%	–	4.33%	4.48%
Allowance for impairment	–	–	–	–	(1,404)	(1,404)	(1,311)
Other	–	–	–	–	1,954	1,954	1,896
Total	253,032	20,391	7,739	956	4,052	286,170	230,744
Liabilities and Shareholder's Equity							
Liabilities:							
Deposits	11,151	28,792	43,837	34,057	132,523	250,360	194,775
	0.41%	1.18%	1.83%	3.22%	–	0.93%	1.47%
Other	–	–	–	–	2,801	2,801	2,978
	11,151	28,792	43,837	34,057	135,324	253,161	197,753
Shareholder's equity	–	–	–	–	33,009	33,009	32,991
Total	11,151	28,792	43,837	34,057	168,333	286,170	230,744
Total gap	$ 241,881	$ (8,401)	$ (36,098)	$ (33,101)	$ (164,281)	$ –	$ –

(In thousands of Canadian dollars)

11. Interest rate sensitivity (continued):

As at December 31, 2020, a one-percentage-point change in the market interest rate over a one-year period would have an impact of approximately $62 (2019 - $888) on net interest income over the next year.

12. Fair values of financial instruments:

The amounts set out in the table below represent the fair values of the Bank's on-balance sheet financial instruments using the valuation method and assumptions described below. The amounts do not include the fair value of underlying assets and liabilities that are not considered financial instruments, such as office equipment.

The estimated fair value amounts are designed to approximate amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. However, many of the Bank's financial instruments lack an available trading market. Therefore, fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Because of the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

			2020			2019
	Fair value	Carrying value	Fair value over carrying value	Fair value	Carrying value	Fair value over carrying value
Assets						
Cash resources	$ 123,294	$ 123,294	$ –	$ 79,405	$ 79,405	$ –
Loans and advances	160,922	160,922	–	149,443	149,443	–
Other	1,315	1,315	–	1,042	1,042	–
Liabilities						
Deposits	250,360	250,360	–	194,775	194,775	–
Other	2,801	2,801	–	2,978	2,978	–

12. Fair values of financial instruments (continued):

The following methods and assumptions were used to estimate the fair values of on-balance sheet financial instruments.

Due to their short-term nature, the carrying values of certain on-balance sheet financial instruments are assumed to approximate their fair values. These financial instruments include cash resources, other assets, deposits and other liabilities.

The Bank follows a fair value hierarchy to categorize the inputs used to measure fair value of financial instruments shown in the table below. The fair value hierarchy is based on quoted prices in active markets (Level 1), models using inputs other than quoted prices (Level 2), or models using inputs that are not based on observable market data (Level 3).

13. Derivative financial instruments:

As at December 31, 2020, the Bank has no derivative financial instruments (2019 - nil).

During 2019 and 2020 all of the Bank's derivative contracts were OTC foreign exchange forward transactions that were privately negotiated between the Bank and the counterparty to the contract.

Foreign exchange forwards are contracts in which one party contracts with another to exchange a specified amount of one currency for a specified amount of a second currency at a future date or range of dates.

All derivative instruments were originated in Canada with maturities of six months or less.

The Bank does not engage in other types of derivative products.

(In thousands of Canadian dollars)

14. Capital position:

The table below provides a summary of the regulatory capital and ratios for the year ended December 31, 2020 and comparative information for the prior year. The Bank is in compliance with the imposed capital requirements to which it is subject:

	2020	2019
Shareholder's equity:		
Common shares	$ 30,000	$ 30,000
Retained earnings	3,009	2,991
	33,009	32,991
Capital structure and ratios*:		
CET1 capital	33,071	32,991
Tier 1 capital	33,071	32,991
Tier 2 capital	718	660
Total (eligible) capital	33,789	33,651
Risk-weighted assets	182,682	155,154
Capital ratios:		
CET1 Ratio	18.10%	21.26%
Tier 1 Ratio	18.10%	21.26%
Total Ratio	18.50%	21.69%
Leverage ratio exposure	$ 293,004	$ 237,733
Leverage ratio*	11.29%	13.88%

*Capital, RWA, and capital ratios are calculated using OSFI's Capital Adequacy Requirements ("CAR") guideline and the Leverage ratio is calculated using OSFI's Leverage Requirements ("LR") guideline as updated in accordance with the regulatory guidance issued in fiscal 2020 by OSFI in response to the COVID-19 pandemic. Both the CAR guideline and LR guideline are based on the Basel III framework.

15. Employee benefit plans:

The Bank has a defined contribution pension plan for eligible employees. Current service pension costs are expensed as funded. The total pension expense for the year was $176 (2019 - $162).

16. Other income:

During 2020, the Bank received subsidies provided by the Canadian government in respect of wages (the Canada Emergency Wage Subsidy, or "CEWS") and rent (the Canada Emergency Rent Subsidy, or "CERS"). The Bank assessed its eligibility for both programs and received $465 under CEWS and $9 under CERS during the year ended December 31, 2020. The Bank intends to apply for both CEWS and CERS in subsequent periods, subject to continuing to meet the applicable qualification criteria.

17. Comparative information:

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