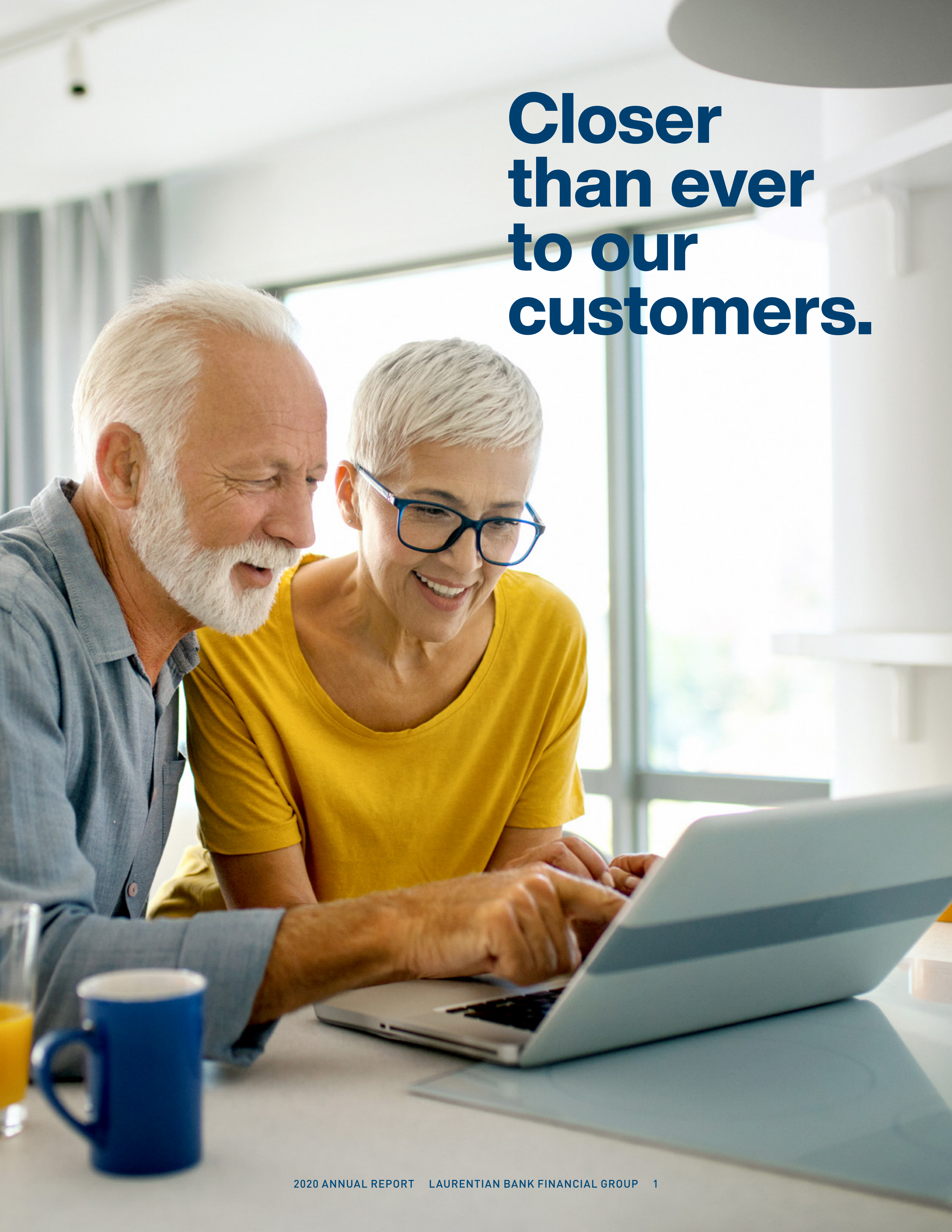
# 2020 ANNUAL REPORT

LAURENTIAN BANK
FINANCIAL GROUP

# Table of contents

# Closer than ever to our customers.



# mission

**We help customers improve their financial health**

# values

**Proximity**
**Simplicity**
**Honesty**

# Who we are

Laurentian Bank Financial Group[1] is a diversified financial services provider whose mission is to help its customers improve their financial health. The Laurentian Bank of Canada (founded in 1846) and its entities are collectively referred to as Laurentian Bank Financial Group.

With more than 2,900 employees guided by the values of proximity, simplicity and honesty, the Bank provides a broad range of advice-based solutions and services to its personal, business and institutional customers. With pan-Canadian activities and a presence in the U.S., the Bank is an important player in numerous market segments.

### Our clients

## Personal

Individuals who care about their financial health benefit from our three-pronged approach, which draws on the advice and expertise of financial professionals, as well as a range of simple and accessible products and services, through:

- Retail Services (Quebec)
- Advisors and Brokers
- Digital Direct to Customers

## Business

Entrepreneurs and business leaders – in Canada and in the United States – benefit from the expertise our account managers have developed in their industries, as well as customized solutions for their banking and financing needs:

- Commercial Banking
- Equipment and Inventory Financing through our subsidiaries LBC Capital and Northpoint Commercial Finance
- Real Estate Financing

## Capital Markets

Our capital markets clients have access to a range of services tailored to their needs in securities trading, broker services, trustee and administrative services.

1 Referred to as “Laurentian Bank Financial Group”, “LBCFG”, the “Group”, or the “Bank”.

# 2020 highlights

**$971.0**
**Revenue**
($ millions)

**$44.2**
**Total Assets**
($ billions)

**$33.2**
**Loans and Acceptances**
($ billions)

**$23.9**
**Deposits**
($ billions)

**$114.1**
**Net Income**
($ millions)

**$138.2**
**Adjusted Net Income[1]**
($ millions)

**4.4%**
**Return on Common Shareholders' Equity**

**5.5%**
**Adjusted Return on Common Shareholders' Equity[1]**

**$2.37**
**Diluted Earnings per Share**

**$2.93**
**Adjusted Diluted Earnings per Share[1]**

**75.6%**
**Efficiency Ratio**

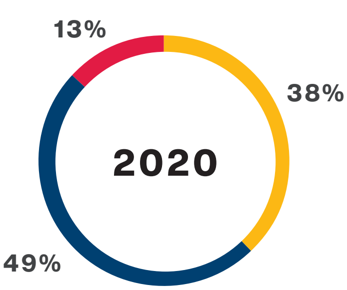
**72.3%**
**Adjusted Efficiency Ratio[1]**

1 Refer to the Non-GAAP and Key Performance Measures section in the Management's Discussion and Analysis.

# Solid financial foundation and good diversification

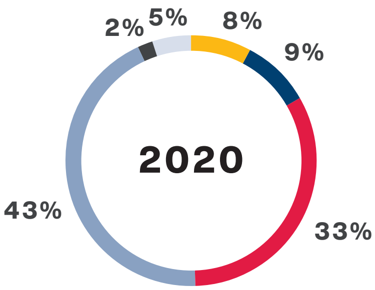
## Loan portfolio mix

A good proportion of higher margin commercial loans in the Bank mix



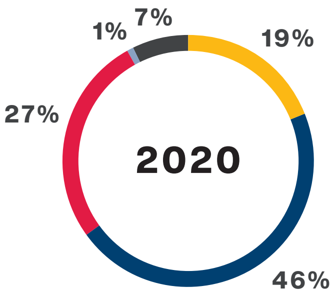

## Geographic footprint

Loans across Canada and since 2017 in the U.S.




## Multiple sources of funding

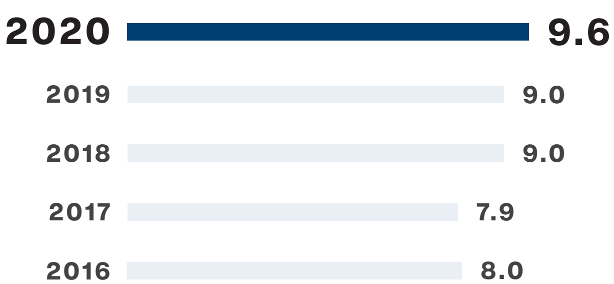
Well-diversified funding sources to support our growth




## A healthy capital position

**Common Equity Tier 1 capital ratio**

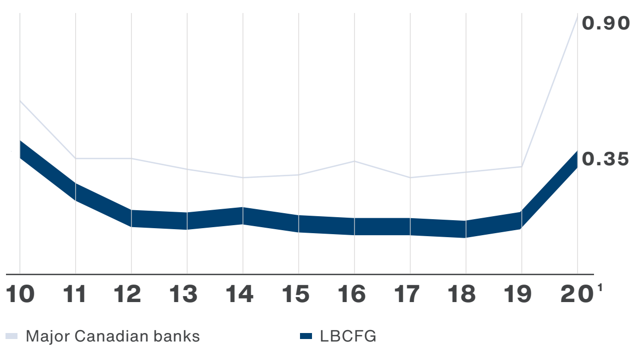
(in %)




## Good track record of strong credit quality

**Provision for credit losses**

(in %)




1 Based on the average of the major Canadian banks for the nine months ended July 31, 2020 – Quarterly reports.

# Message from the Chair of the Board

Laurentian Bank of Canada will celebrate its 175th year in May 2021. A leading player in the Canadian economy since its inception in 1846, our rich tradition of success has also been forged through significant events that have made resilience part of our culture. The most recent, the COVID-19 pandemic, suddenly put to the test not only the adaptability of our financial institution's structure and processes, but also that of our loyal employees and customers.

I am particularly proud of the way our organization has responded to the challenge during these unprecedented times. From the outset, this extraordinary situation was addressed in a safe and prudent manner by the Board of Directors and the management team, who prioritized the health and safety of employees and customers. Management rapidly deployed its business continuity plans to respond as effectively as possible to the specific challenges of a global pandemic. The Bank has supported its personal, business and institutional clients through numerous relief programs – such as payment deferrals on credit products – and will continue to support its customers as it always has.

Our team members have steadfastly supported our customers going through difficult times. I would especially like to thank all of the Bank's employees for their tireless work. Many of them have had to make significant personal sacrifices to ensure the long-term success of our organization. Their professionalism and dedication are the pride of our Bank.

**Changes in the Executive Team**

This was a year of change for our Bank's leadership. After five years as President and CEO of the Bank, François Desjardins retired on June 30, 2020. On behalf of the Board members, I would like to thank him for his 29 years of dedicated service and for his contribution to the development of the Bank.

In accordance with the succession plan for senior management, the Board of Directors undertook a rigorous search process to identify and select a new President and CEO. This process concluded at the end of the fiscal year with the appointment of Rania Llewellyn, who becomes the first woman to lead a major Canadian chartered bank. The Board believes that Rania is the leader we need to usher in a new era at Laurentian Bank. During her rich career of more than 25 years at a leading Canadian financial institution, Rania has held senior positions in all sectors of the banking industry, honing her skills as a leading strategist focused on enhancing the customer experience, inspiring and empowering teams and getting tangible results. The Board is confident Rania will lay the foundation for the Bank's future growth and success.

On behalf of the Board, I would like to sincerely thank Stéphane Therrien who agreed to act as Interim President and CEO for four months. We are most grateful for his deep knowledge of the financial sector which has enabled the Bank to continue providing a rapid response to the challenges posed by the pandemic while staying the course on its priorities.

**In a good financial position**

Laurentian Bank has taken proactive steps to ensure its financial strength and stability during and after this pandemic. As a result, the improvements made in some of our businesses have been overshadowed by a significant increase in provisions for credit losses.

While the Board does not believe that current results are representative of our organization's future ability to deliver results, we made the prudent decision to reduce the quarterly dividend to $0.40 per common share in the third quarter. This decision was made to improve operational flexibility in this period of uncertainty.

The Bank's capital and liquidity have always been prudently managed. Strong credit quality, a solid balance sheet and a rigorous underwriting process help to position us well for the future. The Bank remains cautiously optimistic about the future as the Canadian economy is resilient and poised to adapt to the new reality created by the current pandemic.

**High standards of governance in constant evolution**

The Board of Directors remains committed to maintaining high standards of governance. It is also committed to evolving them to ensure optimal decision-making and creating value for the long-term benefit of all stakeholders.

To this end, the Board values the establishment of an open and constructive dialogue with shareholders and interested parties. As part of its formal shareholder interaction program, the Board continued holding meetings to receive direct feedback to improve corporate governance practices. Among the topics discussed were issues of diversity and inclusion and the environment, which were raised by many stakeholders.

Diversity and inclusion have been a priority for the Bank's Board for several years. The Board is constantly improving its practices in this area to ensure a high level of diversity in order to establish a system of governance that is representative of the markets and communities in which the Bank operates. To do this, the Board regularly reviews the composition of the required director profiles based on the Bank's present and future challenges.

**Mr. Michael Mueller chairs the Board since April 2019 after joining the Bank as Vice Chair of the Board in December 2018. He is a corporate director with a diversified expertise in various industries, such as financial, pharmaceutical, mining and medical.**

**All through his career, Mr. Mueller held a series of senior positions at a major Canadian bank, where he was notably responsible for Global Credit and Global Investment Banking. He also acted as the country Head of the U.S. Division.**

**Very involved in his community, Mr. Mueller is Vice Chair of the Board of Emily's House in Toronto.**

Last May, the Board welcomed Nicholas Zelenczuk as Director. He has more than 35 years of experience in banking, capital markets and investment management, and has held senior management positions with several large corporations in Canada. His extensive experience in business risk management, long-term strategy development and operations-based technology will make a significant contribution to the expertise and depth of our Board.

Our Board Governance Policy provides that the tenure of Directors is generally between 10 and 15 years. As such, last year Lise Bastarache indicated her intention not to seek another mandate at the 2021 Annual Meeting. Lise has been a tremendous asset to the Board since 2006 as a member of the Risk Management Committee and of the Audit Committee. We wish her all the best in her future endeavors.

I would also like to take this opportunity to thank Michel A. Lavigne, who stepped down as a Director this year after more than seven years on the Board. He has been a key member of the Human Resources and Corporate Governance Committee and the Board appreciates his contributions.

The Bank's commitment to greater diversity was reflected this year with the signing of the BlackNorth Pledge against systemic racism, an initiative the Board fully supports. Like many of Canada's largest companies, we are committed to making our workplaces even more inclusive. The Board believes that the Bank can be a change agent in working towards the objectives set out in the Pledge.

In terms of our responsibilities to the environment, the Board continued to monitor the implementation of measures to improve the Bank's disclosure practices leading to the adoption of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). In 2020, the Bank started to develop a roadmap to set out the short, medium and long-term priorities that will be included in its strategic plan. In addition, the Bank has begun calculating its carbon footprint – scope one and two – on the basis of the WRI/WBCSD Greenhouse Gas (GHG) Protocol. This first step will allow the Bank to understand where the GHG reduction opportunities lie.

Lastly, combating cyberthreats is one of the strategic initiatives the Board is closely following as our economy becomes increasingly digital and cybertechnologies continue to advance. The Bank is continuously building on best cybersecurity practices to develop its data security and privacy programs. In addition, the Bank has ensured that our technological environment was strengthened, which has allowed more than 70% of our workforce to work remotely since the beginning of the pandemic.

**Our future is bright**

The Board has full confidence in the executive team, which has demonstrated its ability to adapt to the unpredictable and unnerving events of the past few months. On behalf of the Board members, I would like to thank them for their leadership.

I would also like to thank my colleagues on the Board for their advice and wise counsel during these tumultuous times.

Finally, to our customers and shareholders: I would like to express our gratitude for their loyalty and trust. The Bank will continue to move cautiously in the coming months, but the Board is confident that it will emerge even stronger and more successful.

Sincerely,

**Michael Mueller**

Chair of the Board

# Message from the President and CEO

**I am privileged and humbled to be at the helm of Laurentian Bank as its first woman CEO. Guided by my values of integrity, honesty and passion, I am incredibly proud to be leading 2,900+ extraordinary Laurentian Bank colleagues as we continue to build up relationships with our customers and deliver growth and long-term value to our shareholders.**

## Reshaping our Bank for Tomorrow

**Our Proud History. Our Vibrant Future.**
In May 2021, the Bank will celebrate its 175th anniversary. This milestone provides a great opportunity to pause, reflect and be grateful for the incredible support we have had from our communities across Canada and in the United States, from our customers, our employees and our shareholders. As much as we have a long and proud heritage to uphold, we must also look ahead towards the future, to ensure our legacy continues to thrive for future generations. We can only do this by adapting, evolving and leading change that ensures the Bank's ability to drive long-term shareholder value, advocate customer-centricity and become a best-in-class destination for talent.

**A Unique Opportunity.**
The COVID-19 pandemic has proven that change is not only "a constant" but that it can also be relentless, disruptive and can take place on a global stage. With any change, we can take a reactive approach, or we can take a measured response. But there is another option still. We can see this change and the challenges it presents as a one-time, unique opportunity to reshape our thinking around how we operate and what we do to create value for our customers. In this time of rapid change, convenience, ease and accessibility through digitization is at the heart of what we have heard our customers want and need. Our ability to become more agile as an organization, leverage our centres of expertise and deliver with greater speed than our competitors will help us refine our value proposition to our customers, employees and ultimately, our shareholders.

**Rania Llewellyn was appointed President and Chief Executive Officer and member of the Board of Directors of Laurentian Bank on October 30th, 2020.**

**With more than 25 years of experience in the banking industry, Ms. Llewellyn previously served as Executive Vice President, Global Business Payments at a leading Canadian financial institution, where she began her career as a part-time teller. Over the years, she rose through the ranks and held a variety of progressively senior positions such as Vice President, Multicultural Banking; President & CEO of an important subsidiary in commercial lending; Senior Vice President, Commercial Banking, Growth Strategy; and Senior Vice President, Products and Services, Global Transaction Banking.**

**Her focus on improving customer experience, driving growth and shareholder value has earned her recognition and several industry awards.**

**Born in Kuwait to an Egyptian father and Jordanian mother, Ms. Llewellyn immigrated to Canada from Egypt in 1992 after the Gulf War. She holds a Bachelor of Commerce degree, an MBA and an honorary doctorate from Saint Mary's University.**

**Reimagining our Role in Customers' Lives.**
Since my first day in this new role on October 30, I have had the opportunity to hear directly from customers, shareholders and employees. In my interactions with them, it is quickly becoming apparent that there is a strong desire to reshape the strategic direction of Laurentian Bank. Our renewed strategic direction will always begin with and remain focused on our customers. We have been entrusted to be their financial life partner and to ensure their financial health remains strong. This trust is something we do not take lightly.

As such, our relentless focus for the next few months will be to establish a renewed strategic direction for Laurentian Bank, reimagined with the customer at the centre of everything we do:

1. **Cultivating a "Customer First" Culture:** Advocating for customer centricity by simplifying our end-to-end processes and truly owning the customer experience.

2. **Driving an Agile and Innovative Mindset:** Focusing on process simplification and insisting on operational efficiencies through digitization and automation without losing focus on our risk management culture.

3. **Engaging and Empowering our Teams:** Instilling in our people the power of teams, innovation through diversity and inclusion, but above all, that success begins with having a winning mindset.

**Gratitude.**
While the pandemic continues to cast health and economic uncertainty around us, it has also given us much to be grateful for and to appreciate. My gratitude is for this leadership role, the trust of the Board of Directors and shareholders, the loyalty of our customers and last, and certainly not least, my esteemed colleagues who stand by my side every day as we set the course towards the journey forward – together.

Kind regards,

**Rania Llewellyn**

President and
Chief Executive Officer

# Board of Directors

### Michael Mueller

Corporate Director
Has served on the Board of Directors since December 2018
Chairman of the Board

### Lise Bastarache

Economist and Corporate Director
Has served on the Board of Directors since March 2006
Member of the Audit Committee and member of the Risk Management Committee

### Sonia Baxendale

Corporate Director
Has served on the Board of Directors since August 2016
Chair of the Risk Management Committee and member of the Human Resources and Corporate Governance Committee

### Andrea Bolger

Corporate Director
Has served on the Board of Directors since August 2019
Member of the Risk Management Committee and member of the Human Resources and Corporate Governance Committee

### Michael T. Boychuk, FCPA, FCA

Corporate Director
Has served on the Board of Directors since August 2013
Chair of the Audit Committee and member of the Risk Management Committee

### Rania Llewellyn

President and Chief Executive Officer
Has served on the Board of Directors since October 2020
Ms. Llewellyn does not sit on any of the Board's committees

### David Morris, CPA, CA

Corporate Director
Has served on the Board of Directors since October 2017
Member of the Audit Committee

### David Mowat

Corporate Director
Has served on the Board of Directors since August 2019
Member of the Human Resources and Corporate Governance Committee

### Michelle R. Savoy

Corporate Director
Has served on the Board of Directors since March 2012
Chair of the Human Resources and Corporate Governance Committee

### Susan Wolburgh Jenah, J.D.

Lawyer and Corporate Director
Has served on the Board of Directors since December 2014
Member of the Audit Committee and member of the Human Resources and Corporate Governance Committee

### Nicholas Zelenzcuk, FCPA, FCA

Corporate Director
Has served on the Board of Directors since May 2020
Member of the Audit Committee and member of the Risk Management Committee

# Executive Team

## Kelsey Gunderson

Executive Vice President,
Capital Markets

Kelsey Gunderson is responsible for all Capital Markets activities for the Bank and oversees the strategy and development of services to our institutional clients in the areas of broker services, trustee and administrative services.

## François Laurin, FCPA, FCA, CFA

Executive Vice President, Finance,
Treasury, and Chief Financial Officer

François Laurin is responsible for financial reporting and governance, treasury and capital management, mergers and acquisitions, investor relations and taxation for the Bank.

## William Mason

Executive Vice President
and Chief Risk Officer

William Mason is responsible for the continuous application of sound risk management practices across the organization. He is also responsible for credit management, legal affairs including compliance functions, and for the corporate secretariat.

## Deborah Rose

Executive Vice President
and Chief Operating Officer

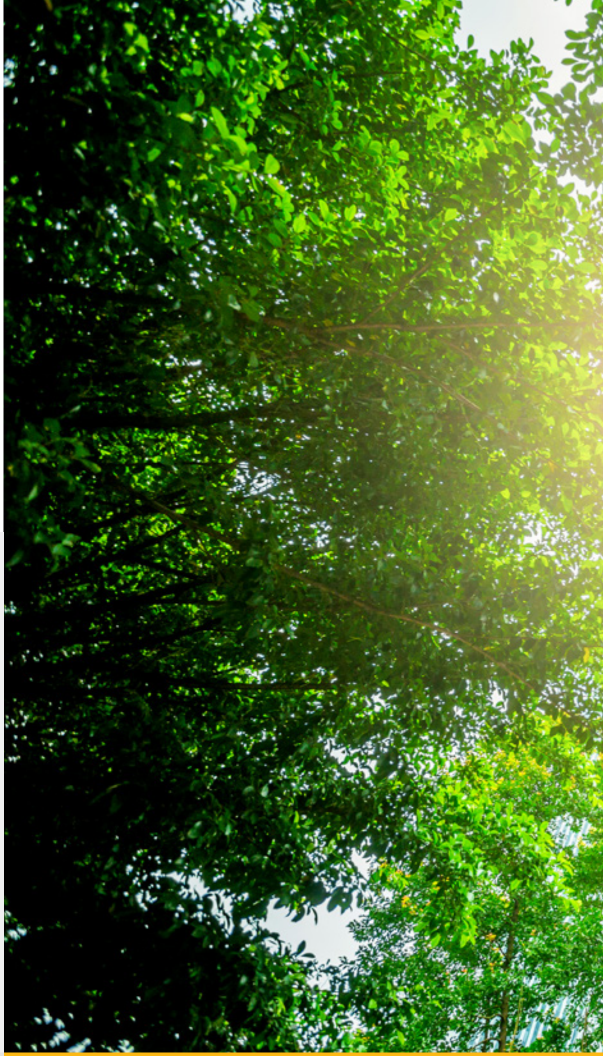
Deborah Rose is responsible for the operations and technology corporate functions. This includes, among other things, managing the enterprise infrastructure, corporate real estate and supply chain, and productivity improvement initiatives. As Chief Information Officer, she oversees all technology assets, including their evolution, and ensures sound governance.

## Stéphane Therrien

Executive Vice President,
Personal & Commercial Banking

Stéphane Therrien is responsible for business development for personal and business clients. He leads the Bank's efforts to accelerate growth in the Quebec Retail Network and oversees the personal banking and investment products offered through the network of Advisors and Brokers, as well as the digital banking operations. He also supervises growth initiatives in the areas of real estate financing, commercial banking, as well as equipment and inventory financing in Canada and the United States.

# 2020 Social Responsibility



## Environmental

**We partner with others and mobilize our workforce to make positive changes today for a sustainable tomorrow.**

In 2020, we initiated the calculation of our **carbon footprint** – scope one and two – based on the WRI/ WBCSD Greenhouse Gas (GHG) Protocol. This initial step will allow us to fully understand our value chain emissions and focus on GHG reduction opportunities.

Since joining the bullfrogpowered community, Laurentian Bank has displaced more than **1,493 tonnes of $CO_2$**. This is equivalent to taking

**330** **cars**

off the road for one year or diverting more than

**521** **tonnes**

of waste from a landfill. This is also the same amount of $CO_2$ emissions produced by the consumption of

**649,936** **litres**

of gasoline.*

*As of October 31, 2020

We are proud to participate in the **green bond market** to help finance key eco-friendly projects. In 2020, Laurentian Bank Securities acted as a participant for the issuance of green bonds totalling

**$4.0B**

During the year, we started to develop a **Task Force on Climate-related Financial Disclosures (TCFD) roadmap** with short, medium and long-term priorities commensurate with the size and resources of our organization. This will be included in the Bank's overall strategic plan.

# Social

**We are committed to diversity, equality, inclusion and giving back so that we can help make a difference in our communities and within our organization.**

Since the beginning of the COVID-19 pandemic, our first priority has been to **ensure the health and safety** of our customers and team members. It was equally important to give back to the communities we serve during this unprecedented crisis.

## Customers

Several relief measures were put into place early on to **support our customers** who faced financial hardships. We were proud to help customers needing mortgage and personal loan payment deferrals as well as offering lower credit card interest rates. We also participated in government programs aimed at supporting businesses through these challenging times.

In addition, we adjusted how we provide service to our customers to ensure their safety:

- Added **banking facilities at a distance**;
- Held virtual appointments with customers;
- Introduced **secure email capabilities** to exchange confidential information;
- Implemented extra cleaning, installed additional hand sanitizer dispensers and provided masks for customers who visited our locations.

# Communities

In 2020, we held a special edition of our annual corporate giving campaign.

Thanks to the generosity of our team members, more than $47,000 was raised and donated to United Way, the Red Cross and HealthPartners to support their activities during the pandemic.

**This amount is above and beyond the**

**$273K**

**that was raised by employees during our annual giving campaign.**

# Team members

**Precautionary measures** were quickly implemented for our team members:

- Ensuring a safe work environment by increasing the intensity of cleaning and installing additional hand sanitizer dispensers at our various offices and locations;
- Eliminating business travel and requiring self-isolation following personal travel or for illness;
- Implementing a **secure work from home strategy** for more than 70% of our team members;
- Implementing **physical distancing measures** and separating our workforce to minimize the number of individuals at any given location.

Recognizing the crucial contribution of seniors to our society and respecting their needs, we adopted, in 2020, the **Code of Conduct for the Delivery of Banking Services to Seniors**. This voluntary code sets out principles that apply to participating financial institutions to guide them when delivering banking products and services to seniors in Canada.

Among our workforce who opted to self-identify at the beginning of their employment, as of October 31, 2020, 0.3% is made up of **Indigenous** persons, 2.9% are persons with **disabilities**, and 28.5% are members of **visible minorities**. Women make up 55% of our workforce and hold 46% of our organization's management positions.

For being a progressive workplace with forward-thinking human resource policies, we were proud to have been recognized this year as one of **Montreal's Top Employers** by the editors of Canada's Top 100 Employers.

# Governance

**We are committed to high standards of governance and transparency in all of our activities so that our customers, shareholders and employees feel confident in how we operate.**

We were pleased to welcome Rania Llewellyn as President and Chief Executive Officer on October 30, 2020. With this appointment, Ms. Llewellyn became the first woman to lead a major Canadian chartered bank.

We have always been progressive when it comes to female leadership. We were proud to have been the first bank in Canada to have appointed a woman to chair our board of directors in 1998 and again in 2013.

In the past **5 years**, there has been near equal representation among independent Board members.

| Year | men | women |
|---|---|---|
| 2016 | 5 | 6 |
| 2017 | 6 | 5 |
| 2018 | 5 | 5 |
| 2019 | 5 | 5 |
| 2020 | 5 | 5 |

In 2020, we signed the **BlackNorth Initiative** whose mission is to end systemic racism throughout all aspects of our lives by utilizing a business first mindset. By joining this movement, we are committed to making our workplaces even more diverse and inclusive by aligning our governance and practices with the goals of the BlackNorth Initiative.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED OCTOBER 31, 2020

This Management's Discussion and Analysis (MD&A) presents management's view of the financial condition of Laurentian Bank of Canada (the "Group" or the "Bank") as at October 31, 2020 and its operating results for the year then ended, compared with the corresponding years shown. This MD&A should be read in conjunction with the Audited Consolidated Financial Statements and related notes for the year October 31, 2020. This MD&A is dated December 4, 2020.

Additional information about Laurentian Bank of Canada, including the 2020 Annual Information Form, is available on our website at www.lbcfg.ca and on the Canadian Securities Administrators' website at www.sedar.com.

## BASIS OF PRESENTATION

The financial information reported herein is based on the Audited Consolidated Financial Statements and related notes for the year ended October 31, 2020, and, unless otherwise indicated, has been prepared in accordance with International Financial Reporting standards (IFRS), as issued by the International Accounting Standards Board (IASB). All amounts are presented in Canadian dollars.

### Financial reporting changes

*Adoption of new accounting standards*

The Bank adopted IFRS 16, *Leases* (IFRS 16) as at November 1, 2019. The adoption of IFRS 16 resulted in a decrease of $7.3 million of shareholders' equity as at November 1, 2019, or a decrease of 10 basis points of the CET1 capital ratio. As permitted by IFRS 16, comparative amounts were not restated for prior periods. For details on this accounting policy change and on the impact of adoption as at November 1, 2019, refer to Notes 2, 3 and 5 to the Audited Consolidated Financial Statements.

## TABLE OF CONTENTS



## ABOUT LAURENTIAN BANK FINANCIAL GROUP

Founded in 1846, Laurentian Bank Financial Group is a diversified financial services provider whose mission is to help its customers improve their financial health. The Laurentian Bank of Canada and its entities are collectively referred to as Laurentian Bank Financial Group (the "Group" or the "Bank").

With more than 2,900 employees guided by the values of proximity, simplicity and honesty, the Group provides a broad range of advice-based solutions and services to its personal, business and institutional customers. With pan-Canadian activities and a presence in the U.S., the Group is an important player in numerous market segments.

The Group has $44.2 billion in balance sheet assets and $27.8 billion in assets under administration.

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

We may, from time to time, make written or oral forward-looking statements within the meaning of applicable securities legislation, including in this document and the documents incorporated by reference herein, and in other documents filed with Canadian regulatory authorities or in other written or oral communications. Forward-looking statements include, but are not limited to, statements regarding our business plans and strategies, priorities and financial objectives, the regulatory environment in which we operate, the anticipated impact of the coronavirus ("COVID-19") pandemic on the Bank's operations, earnings results and financial performance and statements under the headings "Outlook", "COVID-19 Pandemic" and "Risk Appetite and Risk Management Framework" contained in our 2020 Annual Report, including the Management's Discussion and Analysis for the fiscal year ended October 31, 2020 and other statements that are not historical facts. Forward-looking statements typically are identified with words or phrases such as "believe", "assume", "estimate", "forecast", "outlook", "project", "vision", "expect", "foresee", "anticipate", "plan", "goal", "aim", "target", "may", "should", "could", "would", "will", "intend" or the negative of these terms, variations thereof or similar terminology.

By their very nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, both general and specific in nature. Material economic assumptions underlying the forward-looking statements contained in this document are set out in the 2020 Annual Report under the heading "Outlook". There is significant risk that the predictions, forecasts, projections or conclusions will prove to be inaccurate, that our assumptions may not be correct, and that actual results may differ materially from such predictions, forecasts, projections or conclusions.

We caution readers against placing undue reliance on forward-looking statements, as a number of factors, many of which are beyond our control and the effects of which can be difficult to predict, could influence, individually or collectively, the accuracy of the forward-looking statements and cause actual future results to differ significantly from the targets, expectations, estimates or intentions expressed in the forward-looking statements. These factors include, but are not limited to risks relating to: the impacts of the COVID-19 pandemic on the Bank, our business, financial condition and prospects; technology, information systems and cybersecurity; technological disruption, competition and our ability to execute on our strategic objectives; the economic climate in the U.S. and Canada; accounting policies, estimates and developments; legal and regulatory compliance; fraud and criminal activity; human capital; insurance; business continuity; business infrastructure; environmental and social risk and climate change; and our ability to manage operational, regulatory, legal, strategic, reputational and model risks, all of which are described in more detail in the section titled "Risk Appetite and Risk Management Framework" beginning on page 43 of the 2020 Annual Report including the Management's Discussion and Analysis for the fiscal year ended October 31, 2020.

We further caution that the foregoing list of factors is not exhaustive. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also have a material adverse effect on our financial position, financial performance, cash flows, business or reputation. Any forward-looking statements contained in this document represent the views of Management only as at the date hereof, are presented for the purposes of assisting investors and others in understanding certain key elements of the Bank's current objectives, strategic priorities, expectations and plans, and in obtaining a better understanding of the Bank's business and anticipated operating environment and may not be appropriate for other purposes. We do not undertake to update any forward-looking statements , whether oral or written, made by us or on our behalf whether as a result of new information, future events or otherwise, except to the extent required by securities regulations. Additional information relating to the Bank can be located on the SEDAR website at www.sedar.com.

# HIGHLIGHTS

TABLE 1
## FINANCIAL HIGHLIGHTS
As at or for the years ended October 31 (Thousands of Canadian dollars, except when noted)

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| **Operating results** | | | |
| Total revenue | $ 971,009 | $ 968,510 | $ 1,043,410 |
| Net income | $ 114,085 | $ 172,710 | $ 224,646 |
| Adjusted net income[1] | $ 138,206 | $ 193,227 | $ 241,560 |
| **Operating performance** | | | |
| Diluted earnings per share | $ 2.37 | $ 3.77 | $ 5.10 |
| Adjusted diluted earnings per share[1] | $ 2.93 | $ 4.26 | $ 5.51 |
| Return on common shareholders' equity | 4.4 % | 7.0 % | 9.7 % |
| Adjusted return on common shareholders' equity[1] | 5.5 % | 7.9 % | 10.5 % |
| Net interest margin | 1.84 % | 1.81 % | 1.78 % |
| Efficiency ratio | 75.6 % | 75.0 % | 68.7 % |
| Adjusted efficiency ratio[1] | 72.3 % | 72.3 % | 66.7 % |
| Operating leverage | (0.7)% | (8.5)% | 0.7 % |
| Adjusted operating leverage[1] | — % | (7.8)% | (0.9)% |
| **Financial position ($ millions)** | | | |
| Loans and acceptances | $ 33,193 | $ 33,667 | $ 34,395 |
| Total assets | $ 44,168 | $ 44,353 | $ 45,895 |
| Deposits | $ 23,920 | $ 25,653 | $ 28,007 |
| Common shareholders' equity | $ 2,324 | $ 2,303 | $ 2,260 |
| **Key growth drivers ($ millions)** | | | |
| Loans to Business customers | $ 12,730 | $ 12,966 | $ 12,036 |
| Loans to Personal customers[2] | $ 20,463 | $ 20,700 | $ 22,359 |
| Deposits from clients[3] | $ 21,436 | $ 22,518 | $ 24,410 |
| **Basel III regulatory capital ratios** | | | |
| Common Equity Tier 1 (CET1) capital ratio[4] | 9.6 % | 9.0 % | 9.0 % |
| CET1 risk-weighted assets ($ millions) | $ 19,669 | $ 20,407 | $ 20,239 |
| **Credit quality** | | | |
| Gross impaired loans as a % of loans and acceptances | 0.82 % | 0.52 % | 0.53 % |
| Net impaired loans as a % of loans and acceptances | 0.59 % | 0.40 % | 0.42 % |
| Provision for credit losses as a % of average loans and acceptances | 0.35 % | 0.13 % | 0.12 % |
| **Common share information** | | | |
| Closing share price[5] | $ 26.21 | $ 45.30 | $ 41.56 |
| Price / earnings ratio | 11.1 x | 12.0 x | 8.1 x |
| Book value per share | $ 53.74 | $ 54.02 | $ 53.72 |
| Dividends declared per share | $ 2.14 | $ 2.62 | $ 2.54 |
| Dividend yield | 8.2 % | 5.8 % | 6.1 % |
| Dividend payout ratio | 90.2 % | 69.3 % | 49.6 % |
| Adjusted dividend payout ratio[1] | 72.9 % | 61.4 % | 45.9 % |

(1) Refer to the Non-GAAP and Key Performance Measures section.
(2) Including personal loans and residential mortgage loans.
(3) Including personal deposits from the Quebec Retail Network, the Advisors and Brokers channel, the Digital Direct to Customers offering and from Business customers.
(4) Using the Standardized Approach in determining credit risk and operational risk.
(5) Toronto Stock Exchange (TSX) closing market price.

# SUMMARY OF FINANCIAL RESULTS

## OVERVIEW OF FISCAL 2020

Laurentian Bank Financial Group reported net income of $114.1 million and diluted earnings per share of $2.37 for the year ended October 31, 2020, compared with $172.7 million and $3.77 for the year ended October 31, 2019. Return on common shareholders' equity was 4.4% for the year ended October 31, 2020, compared with 7.0% in 2019. On an adjusted basis, net income was $138.2 million and diluted earnings per share were $2.93 for the year ended October 31, 2020, down from $193.2 million and $4.26 diluted per share in 2019. Adjusted return on common shareholders' equity was 5.5% for the year ended October 31, 2020, compared with 7.9% in 2019. Reported results include adjusting items, as detailed in the "Non-GAAP and Key Performance Measures" section on page 21.

The Common Equity Tier 1 (CET1) capital ratio, under the Standardized approach to credit risk stood at 9.6% as at October 31, 2020, above the regulatory requirement of 7.0%.

### Impacts of the COVID-19 pandemic

In early 2020, COVID-19 had spread worldwide and was declared a global pandemic by the World Health Organization. The unprecedented nature of COVID-19 has adversely impacted the global economy throughout 2020 and the second wave, that began in the Fall, is raising concerns as we enter 2021. In this context, our response to the pandemic to date has enabled us to keep our employees and our customers safe. Furthermore, the measures we put in place have also provided the foundation to support our operations in this period of heightened uncertainty. Our liquidity and capital position continues to offer the required flexibility to allow us to support our customers through this difficult period. COVID-19 has had an impact on financial performance since March 2020, and, as a result, improvements in certain of our businesses were overshadowed by a significant increase in provision for credit losses. Nonetheless, we remain cautiously optimistic about the future as the economy has shown resilience to date in progressively adapting to this new reality.

TABLE 2

**CONDENSED CONSOLIDATED RESULTS – REPORTED BASIS**

For the years ended October 31 (Thousands of Canadian dollars)

| | **2020** | 2019 | 2018 | Variance 2020/2019 |
|---|---|---|---|---|
| Net interest income | **$ 682,424** | $ 686,411 | $ 705,912 | (1)% |
| Other income | **288,585** | 282,099 | 337,498 | 2 |
| Total revenue | **971,009** | 968,510 | 1,043,410 | — |
| Amortization of net premium on purchased financial instruments | **638** | 1,452 | 2,296 | (56) |
| Provision for credit losses | **116,300** | 44,400 | 44,000 | 162 |
| Non-interest expenses | **733,787** | 726,493 | 716,781 | 1 |
| Income before income taxes | **120,284** | 196,165 | 280,333 | (39) |
| Income taxes | **6,199** | 23,455 | 55,687 | (74) |
| Net income | **114,085** | 172,710 | 224,646 | (34) |
| Preferred share dividends, including applicable taxes | **12,466** | 12,966 | 14,038 | (4) |
| Net income available to common shareholders | **$ 101,619** | $ 159,744 | $ 210,608 | (36)% |

TABLE 3

**CONDENSED CONSOLIDATED RESULTS – ADJUSTED BASIS[1]**

For the years ended October 31 (Thousands of Canadian dollars)

| | **2020** | 2019 | 2018 | Variance 2020/2019 |
|---|---|---|---|---|
| Net interest income | **$ 682,424** | $ 686,411 | $ 705,912 | (1)% |
| Other income | **288,585** | 282,099 | 337,498 | 2 |
| Total revenue | **971,009** | 968,510 | 1,043,410 | — |
| Provision for credit losses | **116,300** | 44,400 | 44,000 | 162 |
| Adjusted non-interest expenses[1] | **701,857** | 700,103 | 695,775 | — |
| Adjusted income before income taxes[1] | **152,852** | 224,007 | 303,635 | (32) |
| Adjusted income taxes[1] | **14,646** | 30,780 | 62,075 | (52) |
| Adjusted net income[1] | **138,206** | 193,227 | 241,560 | (28) |
| Preferred share dividends, including applicable taxes | **12,466** | 12,966 | 14,038 | (4) |
| Adjusted net income available to common shareholders[1] | **$ 125,740** | $ 180,261 | $ 227,522 | (30)% |

(1) Refer to the Non-GAAP and Key Performance Measures section.

# NON-GAAP AND KEY PERFORMANCE MEASURES

## NON-GAAP MEASURES

Management uses both generally accepted accounting principles (GAAP) and non-GAAP measures to assess the Bank's performance. Results prepared in accordance with GAAP are referred to as "reported" results. Non-GAAP measures presented throughout this document are referred to as "adjusted" measures and exclude amounts designated as adjusting items. Adjusting items relate to restructuring plans and to business combinations and have been designated as such as management does not believe they are indicative of underlying business performance. Non-GAAP measures are considered useful to readers in obtaining a better understanding of how management analyzes the Bank's results and in assessing underlying business performance and related trends. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are unlikely to be comparable to any similar measures presented by other issuers. Table 5 shows adjusting items and their impact on reported results.

## KEY PERFORMANCE MEASURES

Management also uses several financial metrics to assess the Bank's performance. The Bank's key performance measures are defined as follows:

### Return on common shareholders' equity

Return on common shareholders' equity (ROE) is a profitability measure calculated as the net income available to common shareholders as a percentage of average common shareholders' equity. The Bank's common shareholders' equity is defined as the sum of the value of common shares, retained earnings and accumulated other comprehensive income (AOCI), excluding cash flow hedge reserves.

The following table shows additional information about return on common shareholders' equity.

TABLE 4
RETURN ON COMMON SHAREHOLDERS' EQUITY
For the years ended October 31 (Thousands of Canadian dollars, except percentage amounts)

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Reported net income available to common shareholders | **$ 101,619** | $ 159,744 | $ 210,608 |
| Adjusting items, net of income taxes | **24,121** | 20,517 | 16,914 |
| Adjusted net income available to common shareholders | **$ 125,740** | $ 180,261 | $ 227,522 |
| Average common shareholders' equity | **$ 2,295,395** | $ 2,270,617 | $ 2,171,101 |
| Return on common shareholders' equity | **4.4 %** | 7.0 % | 9.7 % |
| Adjusted return on common shareholders' equity | **5.5 %** | 7.9 % | 10.5 % |

### Net interest margin

Net interest margin is the ratio of net interest income to average earning assets, expressed as a percentage or basis points.

### Efficiency ratio and operating leverage

The Bank uses the efficiency ratio as a measure of its productivity and cost control. This ratio is defined as non-interest expenses as a percentage of total revenue. The Bank also uses operating leverage as a measure of efficiency. Operating leverage is the difference between total revenue and non-interest expenses growth rates.

### Dividend payout ratio

Dividend payout ratio is defined as dividends declared on common shares as a percentage of net income available to common shareholders.

TABLE 5

## IMPACT OF ADJUSTING ITEMS ON REPORTED RESULTS

For the quarters or years ended October 31 (Thousands of Canadian dollars, except per share amounts)

| | Fourth quarter | | Year | | |
|---|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 | 2018 |
| **Impact on income before income taxes** | | | | | |
| Reported income before income taxes | **$ 41,647** | $ 47,926 | **$ 120,284** | $ 196,165 | $ 280,333 |
| **Adjusting items, before income taxes** | | | | | |
| Restructuring charges[1] | | | | | |
| Severance charges | **2,253** | 1,735 | **12,321** | 6,474 | 925 |
| Other restructuring charges | **1,909** | 3,696 | **5,968** | 6,205 | 5,019 |
| | **4,162** | 5,431 | **18,289** | 12,679 | 5,944 |
| Items related to business combinations | | | | | |
| Amortization of net premium on purchased financial instruments[2] | **100** | 284 | **638** | 1,452 | 2,296 |
| Amortization of acquisition-related intangible assets[3] | **3,180** | 3,416 | **13,641** | 13,711 | 12,705 |
| Other costs related to business combinations[4] | **—** | — | **—** | — | 2,357 |
| | **3,280** | 3,700 | **14,279** | 15,163 | 17,358 |
| | **7,442** | 9,131 | **32,568** | 27,842 | 23,302 |
| Adjusted income before income taxes | **$ 49,089** | $ 57,057 | **$ 152,852** | $ 224,007 | $ 303,635 |
| **Impact on net income** | | | | | |
| Reported net income | **$ 36,811** | $ 41,343 | **$ 114,085** | $ 172,710 | $ 224,646 |
| **Adjusting items, net of income taxes** | | | | | |
| Restructuring charges[1] | | | | | |
| Severance charges | **1,659** | 1,274 | **9,057** | 4,752 | 678 |
| Other restructuring charges | **1,402** | 2,712 | **4,386** | 4,554 | 3,679 |
| | **3,061** | 3,986 | **13,443** | 9,306 | 4,357 |
| Items related to business combinations | | | | | |
| Amortization of net premium on purchased financial instruments[2] | **77** | 209 | **472** | 1,067 | 1,688 |
| Amortization of acquisition-related intangible assets[3] | **2,362** | 2,428 | **10,206** | 10,144 | 9,143 |
| Other costs related to business combinations[4] | **—** | — | **—** | — | 1,726 |
| | **2,439** | 2,637 | **10,678** | 11,211 | 12,557 |
| | **5,500** | 6,623 | **24,121** | 20,517 | 16,914 |
| Adjusted net income | **$ 42,311** | $ 47,966 | **$ 138,206** | $ 193,227 | $ 241,560 |
| **Impact on diluted earnings per share** | | | | | |
| Reported diluted earnings per share | **$ 0.79** | $ 0.90 | **$ 2.37** | $ 3.77 | $ 5.10 |
| Adjusting items | | | | | |
| Restructuring charges[1] | **0.07** | 0.09 | **0.31** | 0.22 | 0.11 |
| Items related to business combinations | **0.06** | 0.06 | **0.25** | 0.27 | 0.30 |
| | **0.13** | 0.15 | **0.56** | 0.49 | 0.41 |
| Adjusted diluted earnings per share[5] | **$ 0.91** | $ 1.05 | **$ 2.93** | $ 4.26 | $ 5.51 |

(1) Restructuring and charges mainly result from the optimization of our Quebec Retail Network operations and the related streamlining of certain back-office and corporate functions. Restructuring charges also result from the reorganization of retail brokerage activities and other measures aimed at improving efficiency as detailed in the efficiency measure topic in the "Outlook" section. Restructuring charges include severance charges, salaries, provisions, communication expenses and professional fees and charges related to lease contracts. Restructuring charges are included in Non-interest expenses.

(2) Amortization of net premium on purchased financial instruments results from a one-time gain on a business acquisition in 2012 and is included in the Amortization of net premium on purchased financial instruments line item.

(3) Amortization of acquisition-related intangible assets results from business acquisitions and is included in the Non-interest expenses line item.

(4) Other costs related to business combinations result from the transaction and integration of business acquisitions and are included in the Non-interest expenses line item.

(5) The impact of adjusting items on a per share basis may not add due to rounding.

# COVID-19 PANDEMIC

The COVID-19 pandemic continues to raise health, economic and societal challenges globally. Governments worldwide have enacted emergency measures including the implementation of travel bans, temporary business and school closures, self-imposed quarantine periods and physical distancing. From the beginning of the outbreak, governments and central banks have also put in place relief measures to help individuals and businesses alleviate some of the negative economic effects. At the beginning of the third quarter, Canada's economy started to recover, but is still performing below its pre-COVID-19 level. Global markets improved in the Fall, following encouraging announcements about new vaccines. However, the economic outlook remains uncertain as a second wave hits and lockdown measures, among other restrictions, have been enforced. Since March, we have taken measures to preserve the financial strength and stability of the Bank. Capital and liquidity have always been managed prudently and continue to be during these uncertain times. Our strong track record on the credit front and our rigorous underwriting also position us well for the future.

### Employees and customers

At the outset of the crisis, our first priority has been to ensure the health and safety of our customers and employees. Management continues to assess the situation on an ongoing basis and is taking action, as necessary. Early on, precautionary measures included:

- Ensuring a safe environment for our customer-facing employees and customers, following procedures prescribed by global public health organizations;
- Increasing the intensity of cleaning and installing hand sanitizer dispensers at our various offices and locations;
- Eliminating business travel and requiring self-isolation following personal travel or for illness;
- Implementing a secure work from home strategy for more than 70% of our employees; and
- Implementing physical distancing measures and separating our workforce to minimize the number of individuals at any given location.

Still today, we see a strong commitment from our employees and productivity remains high, as we continue to adapt to the new working conditions.

Most of our retail branches, business centers, operations and call centers have remained open. Day-to-day banking continues to be accessible, 24/7, using mobile or online banking, and customers can continue to use ATMs - ours or Interac or the Exchange Network available from coast to coast. Programs to support our customers, such as payment deferrals, detailed below, and credit limit increases have also helped to ease short term concerns.

We also worked in partnership with government entities to further support our business customers. As of April 2020, we began offering the Emergency Business Account for Canadian businesses (CEBA) to eligible customers. This Government of Canada program, for example, provides interest-free loans of up to $40,000 to help businesses and not-for-profit organizations cover their operating costs while revenues are reduced due to the impact of COVID-19. As at October 31, 2020, we've extended $66.8 million to eligible customers. In the third quarter, we also started to offer loans under the Concerted Temporary Action Program for Businesses (PACTE), introduced by Investissement Québec, which provide emergency funding to eligible businesses operating in Québec.

### Operating results

The COVID-19 pandemic has had a significant impact on the Bank's 2020 operating results. Net income was $114.1 million, compared with $172.7 million for 2019. The financial impact of COVID-19 as of the second quarter of 2020 was mainly attributed to higher expected credit losses, primarily driven by severe forward-looking economic scenarios. The provision for credit losses for the third and fourth quarters was also impacted, although to a much lesser extent, as the recession has been steeper than initially anticipated and as forward looking macro-economic scenarios now reflect a slower economic recovery. With regards to revenues, the rebound in economic activity in the third quarter, from a very low base in the second quarter, contributed to improved performance for the second half of 2020, especially from market driven activities where client activity remained high. However, a decrease in certain targeted loan portfolios, in part due to the COVID-19 pandemic, has had an impact on interest income in the later part of 2020.

While we are taking actions to mitigate the impact of COVID-19 on our daily operations and financial results, the pandemic has and is expected to continue to impact our operating results until it subsides and likely for a period thereafter. Numerous unpredictable and evolving factors will have to be considered, such as the duration and spread of the pandemic; its impact on customers, employees and third-party providers; the response of government authorities to the crisis and the global social and economic impacts. As such, it remains difficult to predict the effects of COVID-19 on the Bank's future results.

The allowance for credit losses is sensitive to the inputs used in models, including macroeconomic variables used in the forward-looking scenarios and their respective weights. The magnitude of the impact of COVID-19 on the Canadian and U.S. economies remains highly uncertain, including assessments of the impact of government and/or regulatory responses to the outbreak. Therefore, it is difficult to predict whether the increase in expected credit losses recorded in 2020 will result in significant write-offs and if the Bank will recognize additional increases in expected credit losses in subsequent periods.

In addition, the continued response to the COVID-19 pandemic is requiring management's attention and therefore may limit its focus on other strategic initiatives. The COVID-19 pandemic may also increase costs as the Bank prioritizes health and safety matters and complies with mitigation measures imposed upon it, and cause the Bank to reduce, delay or alter initiatives that may otherwise have increased its long-term value.

#### Capital and liquidity

We are well positioned to manage capital and liquidity risks. Our Common Equity Tier 1 ratio stood at 9.6% as at October 31, 2020, in excess of the minimum regulatory requirement. As we continue to support our customers, and in accordance with regulatory developments and policy responses, we expect our regulatory capital ratio to remain above regulatory and target management levels.

Our liquidity coverage ratio remains above industry levels. We came into this COVID-19 crisis with a healthy liquidity position. Measures put in place by the Canadian government for banks in response to the pandemic, as further detailed below, have improved our ability to raise liquid assets to ensure that we are able to both support ongoing business for the foreseeable future and continue to meet forecast liquidity needs. We will continue to prudently monitor capital and liquidity levels.

#### Policy response

Policymakers have responded quickly to the shocks that have hit the Canadian and U.S. economies.

In response to the pandemic, the Bank of Canada (BoC), the Canadian Government and Provincial governments have all implemented measures to support the economy. At the outset of the crisis, the BoC cut its policy rate by 150 basis points to 0.25%. On October 28, 2020, the BoC announced that it would leave the policy interest rate unchanged until its 2 percent inflation target is sustainably achieved, potentially not before 2023 based on its current projection. The BoC also made available several facilities to support financial market liquidity. These programs provided us with added flexibility to further improve our liquidity position, as well as to optimize our funding costs. Specifically, we participated in the Bankers' Acceptance Purchase Facility (BAPF). In addition to these measures, the BoC also changed its Standing Liquidity Facility Collateral Policy by expanding the list of eligible securities and adding new maturities to its Term Repos operations considering the COVID-19 imperative. On October 15, 2020, as overall financial market conditions improved in Canada, the BoC announced changes to these facilities, including the termination of the BAPF. Though the Bank was not dependent on these facilities, these measures supplemented the Bank's liquidity position.

In March 2020, the Canadian Government launched, through the Canada Mortgage and Housing Corporation (CMHC), an Insured Mortgage Purchased Program (IMPP), which improved the availability of mortgage credit and supported Canada's housing market. This facility provided us with an additional source of funding for our mortgage portfolio.

Concurrently, the Office of the Superintendent of Financial Institutions (OSFI) also announced at the beginning of the crisis, a series of regulatory adjustments to support the financial and operational resilience of federally regulated banks, including adjusting several regulatory capital, liquidity and reporting requirements. Please refer to "Regulatory capital developments" and "Liquidity and funding risk" sections for further details regarding OSFI measures.

The federal and provincial governments also provided fiscal stimulus by introducing various measures to support households and businesses. For individuals, the Canada Emergency Response Benefit (CEBA), an income support program was launched to provide a $2,000 monthly allowance to eligible workers for a maximum of 24 weeks until October 2020. This program was subsequently extended by 4 weeks, providing up to 28 weeks of benefits. The federal government transitioned to a simplified Employment Insurance program on September 27, 2020 for those eligible individuals who remained unable to work and introduced a new suite of temporary and taxable recovery benefits to further support workers. For businesses, among other measures, the Canada Emergency Wage Subsidy was introduced to provide a 75% wage subsidy to eligible businesses, to encourage firms to maintain employment levels and limit further payroll reductions. On October 14, the federal government committed to extending the wage subsidy through to June 2021 as part of its work to restore employment to pre-pandemic levels. Further measures aimed at small businesses and not-for-profit organizations, such as the CEBA, as noted above, as well as the Canada Emergency Commercial Rent Assistance (CECRA) program, which covered up to 50% of rent from April to August were launched. In addition, the PACTE program was introduced by Investissement Québec to provide financial assistance to eligible businesses that face temporary difficulty as a result of COVID-19. These measures have significantly contributed to lessen the impact of the COVID-19 pandemic on the economy and, although some were recently discontinued, they are expected to further contribute to improve conditions in 2021.

In the U.S., the Federal Reserve System (the Fed) and the Federal Government rapidly rolled out monetary and fiscal stimulus through rate cuts, various market related programs that support funding markets, and spending measures to provide income support. During the Summer, the Fed also confirmed its commitment to supporting the recovery. Local governments and states also introduced measures to respond to COVID-19. As well, In March 2020 the U.S. Government introduced the CARES Act, which provides substantial economic assistance to various sectors of the economy impacted by COVID-19, with several provisions directly promoting the interests of small businesses. The sweeping legislation also contains relief for individual taxpayers, distressed industries, and the health care sector, among others. Certain CARES Act provisions including extended unemployment benefits are due to run out in December 2020. However, negotiations related to the next U.S. COVID-19 pandemic relief package have been ongoing in Congress and are expected to be finalized soon.

# OUTLOOK

## ECONOMIC OUTLOOK

The COVID-19 pandemic continues to inflict personal and economic hardship to individuals and companies globally. The rising global number of new cases this Fall reflects quarantine fatigue, more testing and the seasonal pattern of transmission. Combined with the limited capacity of the health-care system, governments around the world announced renewed restrictions of varying degrees.

Following the strong initial reopening last summer, the next stage of the economic recovery is slower and subject to volatility. The path towards a full recovery will depend on the course of the COVID-19 pandemic, authorities' health policies and the distribution of effective vaccines ultimately impacting consumer, business and market confidence. The Bank of Canada intends to support the recovery by keeping its policy rate at 0.25% after the post-pandemic era begins and remains flexible to change the pace and composition of asset purchases in order to maintain the smooth functioning of financial markets and low borrowing costs.

In Canada, the economy and employment recovered about three-quarters of the loss in activity related to the broad-based shutdowns before the beginning of the second wave. However, the recent introduction of localized shutdowns in selected regions of the country in order to contain the second COVID-19 wave will likely affect economic activity towards the end of 2020. COVID-19 uncertainty restrains credit activity and favors precautionary savings.

Labour market conditions improved since last summer as companies recalled some workers in tandem with the reopening. Companies benefiting from the shift in consumer preferences hired staff. The unemployment rate stood at 8.9% in October, compared to the May peak of 13.7%. This compares to the pre-pandemic level of 5.6%. Employment strongly rebounded since last summer as 79% of job losses since the beginning of the pandemic were recovered in October. The employment level stands at 97% of the pre-pandemic level. Continuous income support at the federal government level taking the form of wage subsidy and enhanced Employment Insurance will continue to support unemployed, mostly lower income earners, in the sectors hardest hit by the pandemic.

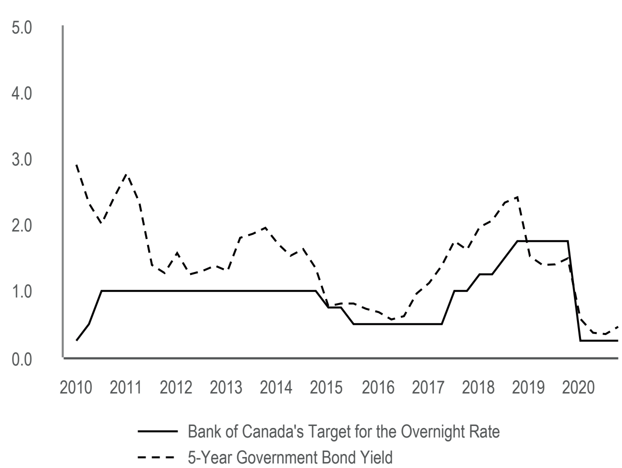
Trends in the Canadian housing market conditions are mixed. Softness in the rental market reflects the decline in immigration and online teaching. The teleworking preference continues to support strong resale activity for larger homes, particularly the single-detached variety. In contrast, activity in the resale condo market has slowed. Less dense urban areas have also experienced stronger demand than in the most dense core areas. Homebuilding activity remains strong.

Immigration has declined abruptly due to health and travel restrictions. The federal government plans to compensate for the weak immigration inflow of 2020 during the next two years by welcoming more immigrants according to new targets released this Fall.

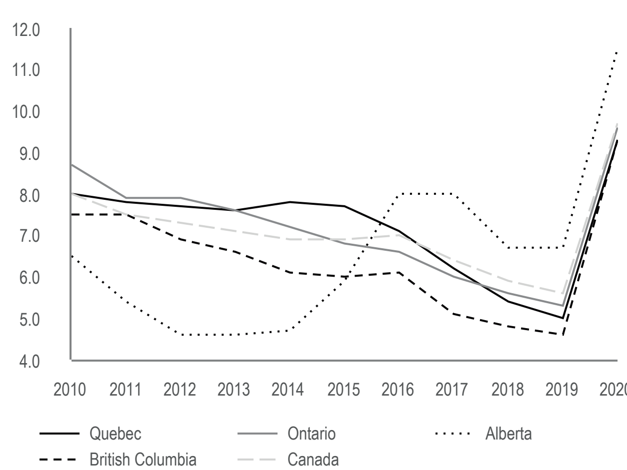
In the U.S., the economy rebounded strongly in the third quarter of 2020, but is slowing in late 2020 as the number of new daily infections reached a record high. Industrial and consumer spending activity, so far, remains resilient despite the absence of new stimulus. The financial support from the CARES stimulus package ratified last Spring expired in late July. U.S. consumers are reallocating spending by notably hitting the road for vacations, leading to a surge in recreational goods and vehicles spending. The Federal Reserve remains committed to supporting the recovery, notably by keeping its policy rate at 0.25% until at least 2023 regardless of the pandemic scenario.

Finally, the Canadian dollar has been recently trading at approximately US$0.76 and has appreciated significantly relative to the US dollar due to the latter generalized depreciation relative to most currencies.

**INTEREST RATES IN CANADA**
(Quarterly data, end of period, in percentage)
(Source: Bank of Canada)




**UNEMPLOYMENT RATES**
(Annual data, in percentage)
(Source: Statistics Canada)



## MEDIUM-TERM PERFORMANCE TARGETS – RETROSPECTIVE

Table 6 shows the medium-term performance targets that were set a year ago and the Bank's performance for 2020. These targets will be reviewed as further detailed below. These medium-term performance targets depend on a number of assumptions, as detailed in our 2019 Annual Report under the heading "Outlook".

TABLE 6

### MEDIUM-TERM PERFORMANCE TARGETS AND 2020 PERFORMANCE

(Billions of Canadian dollars, except per share and percentage amounts)

| | Three-year 2022 Mid-term Targets[1] | | 2020 | | 2019 | Variance 2020/2019 |
|---|---|---|---|---|---|---|
| **Adjusted financial performance[2]** | | | | | | |
| Adjusted return on common shareholders' equity | Narrow gap to 250 bps[3] | | **5.5 %** | | 7.9 % | Current gap at 630 bps |
| Adjusted efficiency ratio | <63% | | **72.3 %** | | 72.3 % | — % |
| Adjusted diluted earnings per share | Grow by 5% to 10% annually | **$** | **2.93** | $ | 4.26 | (31)% |
| Adjusted operating leverage | Positive | | **— %** | | (7.8)% | n.m. |
| **Key growth drivers** | | | | | | |
| Loans to Business customers | Grow to $17.5 B | **$** | **12.7** | $ | 13.0 | (2)% |
| Loans to Personal customers[4] | Grow to $22.5 B | **$** | **20.5** | $ | 20.7 | (1)% |
| Deposits from clients[5] | Grow to $26.0 B | **$** | **21.4** | $ | 22.5 | (5)% |

(1) Mid-term targets, as set out in the 2019 Annual Report.

(2) The 2022 financial objectives are based on non-GAAP measures that exclude adjusting items related to restructuring plans and to business combinations. Refer to the Non-GAAP and Key Performance Measures section.

(3) Compared to the major Canadian banks, based on the Bank using the AIRB approach in determining credit risk and the Standardized approach in determining operational risk. The current gap is based on the average of major Canadian banks for the nine months ended July 31, 2020.

(4) Including personal loans and residential mortgage loans.

(5) Including personal deposits from the Quebec Retail Network, the Advisors and Brokers channel, the Digital Direct to Customers offering and from Business customers.

### 2020 performance summary

The financial impact of COVID-19, as of the second quarter of 2020, hampered our ability to deliver on most of our performance targets. Higher expected credit losses, primarily driven by the severe economic conditions, and lower interest income as a result of a decrease in certain targeted loan portfolios, contributed to lower performance, despite improved results from market driven activities in the second half of 2020 and the stabilization of expenses. Deposits from clients also decreased, as a result of lower loan levels and funding optimization measures. However, personal demand deposits increased by 27% over the last twelve months. Adjusted return on common shareholders' equity was 5.5% in 2020 compared with 7.9% in fiscal 2019, and the ROE gap relative to the major Canadian banks was 630 bps. Adjusted diluted earnings per share of $2.93 for 2020 were down 31% year-over-year. The adjusted efficiency ratio of 72.3% for 2020 remained unchanged as compared to the 2019 level as both revenues and expenses finished the year at similar levels.

### Reshaping the Bank for tomorrow

On October 30, 2020, Rania Llewellyn was appointed as President and Chief Executive Officer, and as a director of the Bank. Ms. Llewellyn brings more than 25 years of experience in the banking sector and is looking forward to pursuing opportunities to reshape the Bank for tomorrow.

In the coming months the management team will establish a renewed strategic direction for Laurentian Bank. As part of this review and in consideration of the impact of the COVID-19 pandemic, the Bank's 2022 mid-term objectives will be revised or replaced.

## UPDATE ON KEY INITIATIVES

Over the past few years, we launched major initiatives with the objective of building a stronger foundation and modernizing the Bank in order to improve financial performance. The following section provides an update on these key projects.

### Digital offering

In the first quarter of 2020, we launched LBC Digital, a direct-to-customer channel, expanding our customer reach from coast to coast. The initial digital offering includes chequing accounts, high-interest savings accounts and guaranteed investment certificates. This pan-Canadian launch provided us with the opportunity to welcome thousands of new customers. Over time, our goal is to broaden and deepen customer relationships and use this platform to build out a high-value and complete product suite. As at October 31, 2020, LBC Digital related demand deposits stood at $0.6 billion.

### Core-banking system replacement program

In 2019, we completed Phase 1 of the core banking system replacement program resulting in the migration of all B2B Bank products and most of our loans to business customers to this new system. Given the impacts of COVID-19 on our business and following the recent change in management, we are currently reassessing the next phase of this project. Our latest estimate had set the project costs at approximately $250 million and, as at October 31, 2020, we had invested about 80% of that amount.

### Evolution of 100% Advice model

In 2020, we completed the conversion of our traditional branch network to a 100% Advice model. Based on the evolving needs of our customers, this new operating model provides the right balance to serve the daily needs of our customers through electronic and phone solutions, as well as to focus on professional financial advice for more complex banking and investment needs. We will continue to right-size our branch network and gradually modify its design to be aligned with our 100% Advice model. All branch employees will now be 100% focused on advising customers on improving their financial health.

### Advanced internal ratings-based approach to credit risk

As part of our plan to improve the Bank's foundation, we pursued our initiative to adopt, subject to regulatory approval, the AIRB approach to credit risk throughout 2020. Given the impacts of COVID-19 on our business and following the recent change in management, we are currently reassessing this initiative and its timeline. Based on our latest assessment, we are not expecting to complete the process prior to the end of 2023.

## UPDATE ON EFFICIENCY MEASURES

Since 2019, we have been identifying opportunities to improve our efficiency. The conversion of our traditional branches to a 100% Advice model and the optimization of certain back-office functions in 2019 resulted in significant savings. As we entered 2020, we maintained our focus on improving efficiency. We merged 20 retail branches during the year (six in the fourth quarter). These measures are also attributed to recent changes in the economic landscape and the ongoing reduction in the number of customer branch visits. Customers will continue to be served by our Quebec Retail Network with locations that are reasonably proximate to converted branch locations. In May 2020, we also reduced headcount by approximately 100 people through attrition, retirement and targeted job reductions in order to realign our workforce with our operational needs, and provide leverage to improve efficiency. These measures resulted in restructuring charges of $18.3 million in 2020, which included severance charges and charges related to lease contracts.

# ANALYSIS OF CONSOLIDATED RESULTS

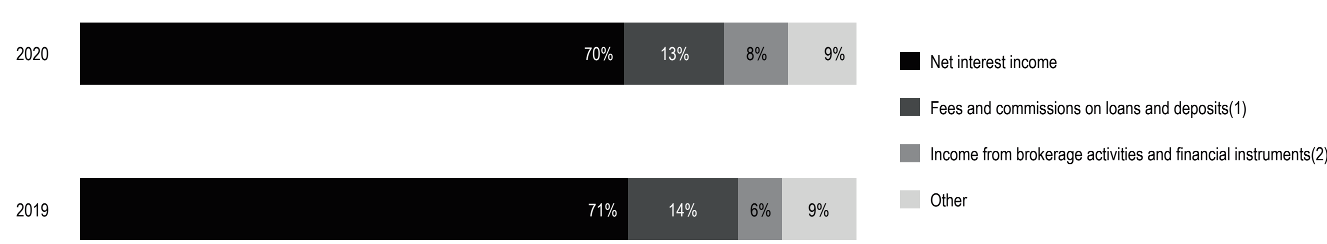
Net income was $114.1 million and diluted earnings per share were $2.37 for the year ended October 31, 2020, compared with $172.7 million and $3.77 for the year ended October 31, 2019. Adjusted net income was $138.2 million for the year ended October 31, 2020, down 28% from $193.2 million for the year ended October 31, 2019, while adjusted diluted earnings per share were $2.93 for the year ended October 31, 2020, down 31% from $4.26 for the year ended October 31, 2019. The decrease in net income and diluted earnings per share, compared with the year ended October 31, 2019, is further detailed below.

## TOTAL REVENUE

Total revenue was $971.0 million for the year ended October 31, 2020, slightly higher compared with $968.5 million for the year ended October 31, 2019. The contribution of net interest income and other income to total revenue for 2020 and 2019 remained relatively stable and is detailed in the following graph.

### TOTAL REVENUE MIX

As at October 31 (as a percentage)




(1) Including Lending fees, Service charges and Card service revenues.
(2) Including Fees and securities brokerage commissions and Income from financial instruments.

## NET INTEREST INCOME

Net interest income decreased by $4.0 million to $682.4 million for the year ended October 31, 2020, from $686.4 million for the year ended October 31, 2019.

For 2020, the impact of lower loan volumes, partly as a result of COVID-19, was mostly offset by improved funding costs. In addition, the adoption of IFRS 16, *Leases* as of November 1, 2019 added $4.8 million to interest expenses related to the new lease liabilities and impacted net interest margin negatively by 1 basis point.

Over the years, we have been repositioning our loan portfolio and have focused on higher yielding commercial loans. This contributed to improving net interest income generation and optimizing capital allocation. In 2020, inventory financing volumes were negatively impacted by the COVID-19 pandemic, mainly as a result of higher repayments due to the increased demand for boats and other recreational vehicles, as well as the inability of dealers to replenish their inventory as a result of the manufacturers' production disruption. Further details on the evolution of the loan portfolio are provided in the "Loan portfolio mix" section on page 49 of this MD&A.

As further detailed in Table 7, net interest margin as a percentage of average earning assets stood at 1.84% for the year ended October 31, 2020 and increased by 3 bps when compared with the year ended October 31, 2019, mainly as a result of changes in the loan portfolio mix, as well as the reduction in funding costs. Table 8 provides a summary of changes in net interest income.

TABLE 7
### NET INTEREST INCOME
For the years ended October 31 (Thousands of Canadian dollars, except percentage amounts)

| | | | 2020 | | | 2019 |
|---|---|---|---|---|---|---|
| | Average volume | Interest | Average rate | Average volume | Interest | Average rate |
| **Assets** | | | | | | |
| Cash resources and securities[1] | $ 3,615,864 | $ 62,092 | 1.72 % | $ 3,762,547 | $ 84,918 | 2.26 % |
| Securities purchased under reverse repurchase agreements[1] | 212,009 | 1,777 | 0.84 | 242,268 | 4,116 | 1.70 |
| Loans | | | | | | |
| Personal | 4,326,186 | 206,052 | 4.76 | 5,008,475 | 273,120 | 5.45 |
| Residential mortgage | 15,984,244 | 472,898 | 2.96 | 16,383,173 | 502,357 | 3.07 |
| Commercial and other | 12,880,577 | 608,123 | 4.72 | 12,440,248 | 660,509 | 5.31 |
| Total loans | 33,191,007 | 1,287,073 | 3.88 | 33,831,896 | 1,435,986 | 4.24 |
| Derivatives and other | | 71,311 | — | | 31,362 | — |
| Total interest earning assets[1] | 37,018,880 | 1,422,253 | 3.84 | 37,836,711 | 1,556,382 | 4.11 |
| Non-interest earning assets and assets related to trading activities | 7,958,930 | — | — | 7,447,493 | — | — |
| Total assets | $ 44,977,810 | $ 1,422,253 | 3.16 % | $ 45,284,204 | $ 1,556,382 | 3.44 % |
| **Liabilities and shareholders' equity** | | | | | | |
| Demand and notice deposits | $ 6,625,724 | $ 51,135 | 0.77 % | $ 6,063,113 | $ 58,181 | 0.96 % |
| Term deposits | 18,535,989 | 480,927 | 2.59 | 21,470,442 | 580,208 | 2.70 |
| Debt related to securitization activities | 9,164,817 | 179,930 | 1.96 | 7,844,227 | 172,419 | 2.20 |
| Subordinated debt | 349,258 | 15,222 | 4.36 | 348,918 | 15,214 | 4.36 |
| Other | — | 12,615 | — | — | 43,949 | — |
| Total interest-bearing liabilities[1] | 34,675,788 | 739,829 | 2.13 | 35,726,700 | 869,971 | 2.44 |
| Acceptances | 216,689 | — | — | 224,628 | — | — |
| Non-interest-bearing liabilities and liabilities related to trading activities | 7,508,145 | — | — | 6,802,026 | — | — |
| Total liabilities | 42,400,622 | 739,829 | 1.74 | 42,753,354 | 869,971 | 2.03 |
| Shareholders' equity | 2,577,188 | | — | 2,530,850 | | — |
| Total liabilities and shareholders' equity | $ 44,977,810 | $ 739,829 | 1.64 % | $ 45,284,204 | $ 869,971 | 1.92 % |
| Net interest income and margin (on average earning assets) | | $ 682,424 | 1.84 % | | $ 686,411 | 1.81 % |

(1) Interest earning assets and interest-bearing liabilities exclude volumes related to trading activities.

TABLE 8
### CHANGES IN NET INTEREST INCOME
For the year ended October 31 (Thousands of Canadian dollars)

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | **2020** |
| | | | **Increase (decrease) due to change in** | | | |
| | | **Average volume** | | **Average rate** | | **Net change** |
| Interest earning assets | $ | **(33,641)** | $ | **(100,488)** | $ | **(134,129)** |
| Interest-bearing liabilities | | **25,590** | | **104,552** | | **130,142** |
| Net interest income | $ | **(8,051)** | $ | **4,064** | $ | **(3,987)** |

## OTHER INCOME

Other income increased by $6.5 million or 2%, amounting to $288.6 million for the year ended October 31, 2020, compared with $282.1 million for the year ended October 31, 2019.

*Lending fees* increased by $1.1 million or 2% to $62.6 million for 2020, compared with $61.5 million for 2019, mainly driven by increases from real estate lending activity.

*Fees and securities brokerage commissions* increased by $4.1 million or 9% to $48.0 million for 2020, compared with $43.9 million for 2019. The increase mostly stemmed from higher investment-banking fees on fixed income activities, in part as a result of increased debt issuances as clients took advantage of the low-rate environment resulting from the COVID-19 pandemic.

*Commissions from sales of mutual funds* were essentially unchanged at $43.0 million for 2020, compared with $42.9 million for 2019, as the effect of market improvements toward the end of the year and net sales compensated for weaker markets in the Spring and pressure on fees.

*Service charges* on deposits and payments decreased by $8.3 million or 20% to $33.7 million for 2020, compared with $42.0 million for 2019. The decrease results in part from the ongoing changes to retail customers banking behaviour, as they gradually adopt digitally-based services. The current COVID-19 pandemic has accelerated this trend and has further contributed to lower the level of in-branch and ATM transactions over the last quarters.

*Card service revenues* decreased by $4.8 million or 14%, mainly as a result of lower consumer spending owing to the current economic conditions.

*Income from financial instruments* increased by $21.3 million or 171% to $33.7 million for 2020, compared with $12.5 million for 2019. The increase was driven by high levels of market activity, in particular in fixed income trading and underwriting, which drove a record year for Capital Markets especially in the final half of the year.

*Fees on investment accounts* decreased by $1.9 million or 10% to $16.4 million for 2020, compared with $18.2 million for 2019, as a result of lower levels of investment accounts under administration and some client attrition.

*Insurance income* is generated by insurance programs related to the Bank's credit and card product offerings. Insurance revenues are presented net of claims and expenses. Net revenues decreased by $2.8 million or 20% to $11.1 million for 2020, compared with $13.9 million for 2019, mainly as a result of higher customer claims, in part on travel insurance coverage related to our credit card offering ensuing from the COVID-19 pandemic. Additional information on the Bank's insurance revenues is disclosed in Note 28 to the Consolidated Financial Statements.

*Other* decreased by $2.4 million or 17% to $11.6 million for 2020, compared with $14.0 million for 2019.

TABLE 9
### OTHER INCOME
For the years ended October 31 (Thousands of Canadian dollars, except percentage amounts)

| | | **2020** | | 2019 | | 2018 | Variance 2020/2019 |
|---|---|---|---|---|---|---|---|
| Lending fees | $ | **62,595** | $ | 61,459 | $ | 66,540 | 2 % |
| Fees and securities brokerage commissions | | **48,030** | | 43,892 | | 51,388 | 9 |
| Commissions from sales of mutual funds | | **42,985** | | 42,892 | | 47,609 | — |
| Service charges | | **33,733** | | 42,033 | | 48,972 | (20) |
| Income from financial instruments | | **33,728** | | 12,460 | | 32,687 | 171 |
| Card service revenues | | **28,438** | | 33,238 | | 33,785 | (14) |
| Fees on investment accounts | | **16,350** | | 18,231 | | 20,146 | (10) |
| Insurance income, net | | **11,148** | | 13,941 | | 15,273 | (20) |
| Other | | **11,578** | | 13,953 | | 21,098 | (17) |
| Other income | $ | **288,585** | $ | 282,099 | $ | 337,498 | 2 % |

## AMORTIZATION OF NET PREMIUM ON PURCHASED FINANCIAL INSTRUMENTS

For the year ended October 31, 2020, amortization of net premium on purchased financial instruments amounted to $0.6 million, compared with $1.5 million for the year ended October 31, 2019. Amortization of net premium on purchased financial instruments results from a one-time gain on a business acquisition in 2012, where the fair value of certain financial instruments was increased to reflect their fair values at acquisition. Refer to the "Non-GAAP and Key Performance Measures" section for additional information.

## PROVISION FOR CREDIT LOSSES

The provision for credit losses increased by $71.9 million to $116.3 million for the year ended October 31, 2020 compared with $44.4 million for the year ended October 31, 2019. The increase in the provision for credit losses resulted primarily from the impact on expected credit losses of the recession resulting from COVID-19. Individual allowances in loans to business customers also contributed to the increase.

Collective allowances are sensitive to model inputs, including macroeconomic variables in the forward-looking scenarios and their respective probability weighting, among other factors. The COVID-19 pandemic led to significant changes to this forward-looking information during 2020, resulting in an increase in expected credit losses. As the full extent of the COVID-19 impact on the Canadian and U.S. economies, including government and/or regulatory responses to the pandemic, remains highly uncertain, it is difficult to predict at this time how the increase in expected credit losses will translate into write-offs and whether we will be required to recognize additional increases in expected credit losses in subsequent periods.

Refer to the "Risk Appetite and Risk Management Framework" section for additional information for the COVID-19 impact on credit risk and measurement uncertainty of expected credit loss estimates and Note 7, Loans and allowances for credit losses, to the Consolidated Financial Statements for more information on provision for credit losses and reconciliation of allowances for credit losses.

## NON-INTEREST EXPENSES

Non-interest expenses increased by $7.3 million or 1% to $733.8 million for the year ended October 31, 2020, compared with $726.5 million for the year ended October 31, 2019. Adjusted non-interest expenses remained relatively unchanged at $701.9 million for the year ended October 31, 2020, compared with $700.1 million for the year ended October 31, 2019.

*Salaries and employee benefits* increased by $13.1 million or 4% to $370.5 million for 2020, compared with $357.4 million for 2019, mostly due to an increase in performance-based compensation related to brokerage operations, as well as to a special compensation program for employees having to work on premises since the outbreak of the COVID-19 pandemic. A compensation charge of $2.7 million, related to the Bank's former President and Chief Executive Officer retirement during the third quarter of 2020, also contributed to the increase, partly offset by the effect of the headcount reduction implemented in May 2020.

*Premises and technology costs* increased by $3.2 million to $200.5 million for 2020, compared with $197.4 million for 2019. Technology costs increased year-over-year and remain elevated as we are currently operating multiple platforms simultaneously. Rent decreased by $20.7 million as a result of the introduction, as of November 1, 2019, of IFRS 16, *Leases*, as well as from a reduction in the square-footage utilization given the right-sizing of our Quebec Retail Network. This decrease was partially offset by a $16.0 million increase in amortization on the newly created right-of-use assets. Including the impact of the interest charge on the new lease liability of $4.8 million, as noted above, overall rental costs remained relatively stable.

*Other non-interest expenses* decreased by $14.6 million to $144.4 million for 2020, compared with $159.1 million for 2019. The improvement mainly resulted from lower regulatory costs, lower advertising, business development and travel costs, as well as decreased professional and advisory services expenses, ensuing from efficiency measures and current economic conditions.

*Restructuring charges* increased by $5.6 million to $18.3 million for 2020 compared with $12.7 million for 2019. In 2020, restructuring charges mainly resulted from branch mergers and from other measures aimed at improving efficiency as detailed in the "Outlook" section under Update on efficiency measures. Restructuring charges included severance charges, as well as charges and provisions related to the termination of lease contracts.

In 2019, restructuring charges were also related to the reorganization of the branch network, as well as to the reorganization of retail brokerage activities and to other measures aimed at improving efficiency. These costs were partly offset by a $4.8 million curtailment gain on pension plans and other post-employment benefit obligations, as well as by reversals of previously accrued provisions amounting to $3.5 million, following the ratification of a new collective agreement.

### Efficiency ratio

The adjusted efficiency ratio was relatively unchanged at 72.3% for the year ended October 31, 2020, compared with the year ended October 31, 2019. The adjusted operating leverage was even for 2020. The efficiency ratio, on a reported basis, was 75.6% for the year ended October 31, 2020, compared with 75.0% for the year ended October 31, 2019. As the Bank continued to invest in its transformation, this ratio was mainly impacted by higher non-interest expenses due to restructuring charges.

Table 10 details non-interest expenses from 2018 to 2020.

TABLE 10

**NON-INTEREST EXPENSES**

For the years ended October 31 (Thousands of Canadian dollars, except percentage amounts)

| | 2020 | 2019 | 2018 | Variance 2020/2019 |
|---|---|---|---|---|
| Salaries and employee benefits | | | | |
| Salaries | $ 231,535 | $ 233,453 | $ 236,088 | |
| Employee benefits | 71,669 | 70,407 | 73,805 | |
| Performance-based compensation | 67,331 | 53,536 | 56,129 | |
| | 370,535 | 357,396 | 366,022 | 4 % |
| Premises and technology | | | | |
| Technology costs | 118,918 | 113,323 | 101,972 | |
| Depreciation and amortization | 51,450 | 32,030 | 28,515 | |
| Rent and property taxes | 24,380 | 45,088 | 52,987 | |
| Other | 5,781 | 6,910 | 8,903 | |
| | 200,529 | 197,351 | 192,377 | 2 % |
| Other | | | | |
| Professional and advisory services | 37,249 | 40,079 | 39,318 | |
| Advertising, business development and travel | 25,858 | 36,060 | 35,607 | |
| Communications | 17,202 | 15,943 | 17,489 | |
| Other | 64,125 | 66,985 | 57,667 | |
| | 144,434 | 159,067 | 150,081 | (9)% |
| Restructuring charges | | | | |
| Severance charges | 12,321 | 6,474 | 925 | |
| Other restructuring charges | 5,968 | 6,205 | 5,019 | |
| | 18,289 | 12,679 | 5,944 | 44 % |
| Costs related to business combinations | — | — | 2,357 | — % |
| Non-interest expenses | $ 733,787 | $ 726,493 | $ 716,781 | 1 % |
| Efficiency ratio | 75.6 % | 75.0 % | 68.7 % | |
| Operating leverage | (0.7)% | (8.5)% | 0.7 % | |
| Adjusted non-interest expenses[1] | $ 701,857 | $ 700,103 | $ 695,775 | — % |
| Adjusted efficiency ratio[1] | 72.3 % | 72.3 % | 66.7 % | |
| Adjusted operating leverage[1] | — % | (7.8)% | (0.9)% | |

(1) Refer to the Non-GAAP and Key Performance Measures section.

## INCOME TAXES

For the year ended October 31, 2020, income tax expense was $6.2 million, and the effective tax rate was 5.2%. The lower tax rate, compared to the statutory rate, mainly resulted from the lower level of income from domestic operations following the elevated provision for credit losses in 2020, as well as a lower taxation level on revenue from foreign operations and from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income. For the year ended October 31, 2019, income tax expense was $23.5 million, and the effective tax rate was 12.0%. The lower tax rate for year ended October 31, 2020, when compared to the prior year, mainly resulted from the proportionally lower level of income from domestic operations, as noted above.

Note 20 to the Consolidated Financial Statements provides further information on income tax expense.

TABLE 11

**RECONCILIATION OF THE INCOME TAX EXPENSE TO THE DOLLAR AMOUNT OF INCOME TAX USING THE STATUTORY RATE**

For the years ended October 31 (Thousands of Canadian dollars, except percentage amounts)

| | 2020 | | 2019 | |
|---|---|---|---|---|
| Income taxes at statutory rates | $ 31,774 | 26.4 % | $ 52,161 | 26.6 % |
| Change resulting from: | | | | |
| Income related to foreign operations | (18,373) | (15.3) | (27,050) | (13.8) |
| Non-taxable dividends and non-taxable portion of capital gains | (4,876) | (4.0) | (2,495) | (1.3) |
| Other, net | (2,326) | (1.9) | 839 | 0.5 |
| Income taxes as reported in the Consolidated Statement of Income | $ 6,199 | 5.2 % | $ 23,455 | 12.0 % |

## TRANSACTIONS WITH RELATED PARTIES

Related parties of the Bank consist of key management personnel and their close family members, as well as their related companies. Key management personnel consist of members of the Executive Committee or the Bank's Board of Directors (the "Board" or "Board of Directors"). As at October 31, 2020, loans provided to key management personnel totalled $0.7 million. Loans to key management personnel are granted under market conditions for similar risks and are initially measured at fair value. Loans to key management personnel consist mostly of term residential mortgage loans, as well as personal loans, at market rates less a discount based on the type and amount of the loan.

In the normal course of business, the Bank also provides usual banking services to key management personnel and their related entities, including bank accounts (deposits) under terms similar to those offered to arm's length parties. As at October 31, 2020, these deposits totalled $1.0 million.

See Note 22 to the Consolidated Financial Statements for additional information on related party transactions.

## OVERVIEW OF FISCAL 2019

For the year ended October 31, 2019, net income was $172.7 million or $3.77 diluted per share, compared with $224.6 million or $5.10 diluted per share in 2018. Return on common shareholders' equity was 7.0% for the year ended October 31, 2019, compared with 9.7% in 2018. On an adjusted basis, net income totalled $193.2 million or $4.26 diluted per share for the year ended October 31, 2019, down 20% and 23% respectively, compared with $241.6 million or $5.51 diluted per share in 2018. Adjusted return on common shareholders' equity was 7.9% for the year ended October 31, 2019, compared with 10.5% for the year ended October 31, 2018. Reported results for 2019 and 2018 included adjusting items, as detailed in the "Non-GAAP and Key Performance Measures" section on page 21.

2019 remained a year of investments in our people, processes and technology. Fiscal 2019 was also marked by the labour negotiation at the outset of the year, but most importantly by the new collective agreement which strengthened foundation and improved managerial flexibility which is expected to contribute to improvements in financial performance and help resume growth in the Personal segment. The Business Services segment posted a strong performance, leveraging its solid expertise and relationships in Real Estate Financing, Commercial Banking and Equipment and Inventory Financing. Loans to Business customers increased by 8%. For this same period, the Capital Markets segment saw its contribution decrease as it was impacted by the unstable market environment.

The CET1 capital ratio, under the Standardized approach to credit risk, was essentially unchanged compared with October 31, 2018 and stood at 9.0% as at October 31, 2019, above the regulatory requirement of 7.0%. This strong capital position provided us with the required flexibility to manage the COVID-19 pandemic and pursue significant initiatives throughout 2020.

# ANALYSIS OF QUARTERLY RESULTS

## ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF 2020

Net income was $36.8 million and diluted earnings per share were $0.79 for the fourth quarter of 2020, compared with $41.3 million and $0.90 for the fourth quarter of 2019. Adjusted net income was $42.3 million for the fourth quarter of 2020, down 12% from $48.0 million for the fourth quarter of 2019, while adjusted diluted earnings per share were $0.91, down 13% compared with $1.05 for the fourth quarter of 2019.

### Total revenue

Total revenue was $243.5 million for the fourth quarter of 2020, up 1% compared with $241.6 million for the fourth quarter of 2019.

*Net interest income* decreased by $3.9 million to $169.3 million for the fourth quarter of 2020, compared with $173.2 million for the fourth quarter of 2019. The decrease was mainly due to a year-over-year decrease in higher margin loan volumes, mainly as a result of the impact of the COVID-19 pandemic on inventory financing activities, partly offset by improved funding costs. For the fourth quarter of 2020, the adoption of IFRS 16, *Leases* as of November 1, 2019 added $1.2 million to interest expenses related to the new lease liabilities and impacted net interest margin negatively by 1 basis point. Net interest margin was 1.82% for the fourth quarter of 2020, a decrease of 2 basis points compared with the fourth quarter of 2019, essentially for the same reasons.

*Other income* increased by $5.8 million or 8% to $74.2 million for the fourth quarter of 2020, compared with $68.4 million for the fourth quarter of 2019. The increase was mainly due to the strong contribution from capital market activities, which improved by $10.3 million compared with the fourth quarter of 2019. Other income for the fourth quarter of 2020 also included a net gain of $1.1 million on a securitization of a mortgage loan portfolio. This was partly offset by a decrease in service charges due to the ongoing changes to the retail banking environment and the related customers' banking behaviour, as well as by a decrease in VISA card service revenues stemming from lower transaction volumes as a result of the COVID-19 pandemic.

### Amortization of net premium on purchased financial instruments

For the fourth quarter of 2020, amortization of net premium on purchased financial instruments amounted to $0.1 million, compared with $0.3 million for the fourth quarter of 2019. Refer to the 2020 Annual Consolidated Financial Statements for additional information.

### Provision for credit losses

The provision for credit losses amounted to $24.2 million for the fourth quarter of 2020 compared with $12.6 million for the fourth quarter of 2019, an increase of $11.6 million. The increase is mainly resulting from our revised assessment of the economic conditions, including the effect of the COVID-19 pandemic, as detailed below.

*Credit losses on personal loans* for the fourth quarter of 2020 decreased by $2.2 million compared with the fourth quarter of 2019, essentially as a result of lower write-offs, and despite a slight increase in the HELOC portfolio as the deferral program was gradually coming to an end during the fourth quarter.

*Credit losses on residential mortgage loans* for the fourth quarter of 2020 increased by $6.4 million compared with the fourth quarter of 2019. The increase accounts for our most recent assumptions considering the COVID-19 pandemic, including updated assessments regarding loans to clients which had benefited from deferral programs, as noted above.

*Credit losses on commercial loans* for the fourth quarter of 2020 increased by $7.4 million compared with the fourth quarter of 2019, which mainly reflects a limited migration of the portfolio. As well, the effect on collective allowances of a slightly more severe recession and slower recovery than anticipated in the third quarter of 2020 contributed to the increase in loan losses.

The provision for credit losses expressed as a percentage of average loans and acceptances was 29 bps for the fourth quarter of 2020 compared to 15 bps for the three months ended October 31, 2019.

Refer to the "Risk Appetite and Risk Management Framework" section for additional information for the COVID-19 impact on credit risk and measurement uncertainty of expected credit loss estimates and Note 7, Loans and allowances for credit losses, to the Consolidated Financial Statements for more information on provision for credit losses and reconciliation of allowances for credit losses.

### Non-interest expenses

Non-interest expenses amounted to $177.6 million for the fourth quarter of 2020, a decrease of $3.2 million or 2% compared with the fourth quarter of 2019. Adjusted non-interest expenses amounted to $170.3 million for the fourth quarter of 2020, a decrease of $1.7 million or 1% compared with the fourth quarter of 2019.

*Salaries and employee benefits* amounted to $88.8 million for the fourth quarter of 2020, an increase of $4.1 million, compared with the fourth quarter of 2019. This increase is mainly due to higher performance-based compensation related to strong capital market activities and higher employee benefits, partly offset by a decrease in salaries reflecting the headcount reduction implemented in May 2020.

*Premises and technology costs* were $49.9 million for the fourth quarter of 2020, an increase of $0.9 million compared with the fourth quarter of 2019, essentially as a result of higher technology costs to support operations. Rent decreased by $4.9 million as a result of the introduction, as of November 1, 2019, of IFRS 16, *Leases*, as well as from a reduction in the square-footage utilization given the right-sizing of our Quebec Retail Network. This decrease was mostly offset by a $3.9 million increase in amortization on the newly created right-of-use assets. Including the impact of the interest charge on the new lease liabilities of $1.2 million, as noted above, overall rental costs remained relatively stable.

*Other non-interest expenses* were $34.7 million for the fourth quarter of 2020, a decrease of $7.0 million, compared with the fourth quarter of 2019. The improvement mainly resulted from lower regulatory costs, as well as lower advertising, business development and travel expenses, ensuing from efficiency measures and current economic conditions.

*Restructuring charges* were $4.2 million for the fourth quarter of 2020 and mainly resulted from measures aimed at improving efficiency as detailed in the "Update on efficiency measures" section under Outlook. Restructuring charges include severance charges, as well as charges and provisions related to the termination of lease contracts.

*Efficiency ratio*

The adjusted efficiency ratio was 69.9% for the fourth quarter of 2020, compared with 71.2% for the fourth quarter of 2019, as a result of lower adjusted expenses and an increase in other income. Adjusted operating leverage was positive year-over-year. The efficiency ratio on a reported basis was 72.9% for the fourth quarter of 2020, compared with 74.8% for the fourth quarter of 2019, as a result of lower expenses and an increase in other income.

### Income taxes

For the quarter ended October 31, 2020, the income tax expense was $4.8 million, and the effective tax rate was 11.6%. The lower tax rate, compared to the statutory rate, is attributed to a lower taxation level of revenue from foreign operations, as well as from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income. For the quarter ended October 31, 2019, income tax expense was $6.6 million, and the effective tax rate was 13.7%. Year-over-year, the income tax rate decreased slightly.

## QUARTERLY RESULTS AND TREND ANALYSIS

The Bank's intermediation business provides a relatively steady source of income stemming from intermediation activities. However, certain activities related to financial markets, such as trading activities, may result in significant volatility. In addition, variations in market interest rates or equity markets, as well as in credit conditions can influence the Bank's results. Furthermore, other transactions such as business acquisitions or specific regulatory developments may significantly impact revenues and expenses. Given that the second quarter usually consists of only 89 days compared with 92 days for the other quarters, overall profitability is generally lower for that quarter, mainly as net interest income is impacted. Table 12 summarizes quarterly results for fiscal 2020 and 2019.

TABLE 12
**QUARTERLY RESULTS**
(Thousands of Canadian dollars, except per share and percentage amounts)

| | **2020** | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Oct. 31** | **July 31** | **April 30** | **Jan. 31** | Oct. 31 | July 31 | April 30 | Jan. 31 |
| Net interest income | **$169,346** | **$173,546** | **$170,747** | **$168,785** | $173,205 | $176,042 | $164,564 | $172,600 |
| Other income | **74,193** | **75,063** | **69,401** | **69,928** | 68,433 | 68,611 | 75,317 | 69,738 |
| Total revenue | **243,539** | **248,609** | **240,148** | **238,713** | 241,638 | 244,653 | 239,881 | 242,338 |
| Amortization of net premium on purchased financial instruments | **100** | **127** | **179** | **232** | 284 | 336 | 390 | 442 |
| Provision for credit losses | **24,200** | **22,300** | **54,900** | **14,900** | 12,600 | 12,100 | 9,200 | 10,500 |
| Non-interest expenses | **177,592** | **183,777** | **183,516** | **188,902** | 180,828 | 177,858 | 183,131 | 184,676 |
| Income before income taxes | **41,647** | **42,405** | **1,553** | **34,679** | 47,926 | 54,359 | 47,160 | 46,720 |
| Income taxes | **4,836** | **6,188** | **(7,332)** | **2,507** | 6,583 | 6,561 | 3,847 | 6,464 |
| Net income | **$36,811** | **$36,217** | **$8,885** | **$32,172** | $41,343 | $47,798 | $43,313 | $40,256 |
| Earnings per share | | | | | | | | |
| Basic | **$0.79** | **$0.77** | **$0.13** | **$0.68** | $0.90 | $1.05 | $0.95 | $0.88 |
| Diluted | **$0.79** | **$0.77** | **$0.13** | **$0.68** | $0.90 | $1.05 | $0.95 | $0.88 |
| Net interest margin | **1.82 %** | **1.86 %** | **1.88 %** | **1.81 %** | 1.84 % | 1.85 % | 1.77 % | 1.80 % |
| Return on common shareholders' equity | **5.9 %** | **5.8 %** | **1.0 %** | **5.0 %** | 6.6 % | 7.8 % | 7.3 % | 6.5 % |
| **Adjusting items[1], net of income taxes** | | | | | | | | |
| Restructuring charges | **$3,061** | **$8,133** | **$239** | **$2,010** | $3,986 | $1,323 | $2,525 | $1,472 |
| Items related to business combinations | **$2,439** | **$2,733** | **$2,788** | **$2,718** | $2,637 | $2,761 | $2,888 | $2,925 |
| | **$5,500** | **$10,866** | **$3,027** | **$4,728** | $6,623 | $4,084 | $5,413 | $4,397 |
| **Adjusted financial measures[1]** | | | | | | | | |
| Adjusted net income | **$42,311** | **$47,083** | **$11,912** | **$36,900** | $47,966 | $51,882 | $48,726 | $44,653 |
| Adjusted diluted earnings per share | **$0.91** | **$1.02** | **$0.20** | **$0.79** | $1.05 | $1.15 | $1.08 | $0.98 |
| Adjusted return on common shareholders' equity | **6.8 %** | **7.7 %** | **1.5 %** | **5.8 %** | 7.8 % | 8.5 % | 8.3 % | 7.3 % |
| Adjusted non-interest expenses | **$170,250** | **$169,190** | **$179,648** | **$182,769** | $171,981 | $172,630 | $176,255 | $179,237 |

(1) Refer to the Non-GAAP and Key Performance Measures section.

## Trend analysis

*Net interest income*
Net interest income generally decreased in the first half of 2019, mostly as a result of higher levels of liquid assets. As the new collective agreement was ratified at the end of March 2019, we gradually decreased the level of liquid assets, which positively contributed to net interest income in the second half of 2019. In 2020, net interest income remained relatively stable as higher margins on loans to business customers and improved funding were mostly offset by a year-over-year decrease in loan volumes to personal customers and in inventory financing activities during the last two quarters.

*Other income*
Other income generally increased throughout 2019 and 2020, mostly as a result of market driven revenues, including trading and brokerage operations. This was offset by the gradually lower level of service charges due to product simplification and reorganization initiatives, as well as to modification of clients banking behaviour to favour online banking. Card service revenues also decreased throughout 2020, mostly as Visa credit card transaction volumes declined as a result of the COVID-19 pandemic.

*Provision for credit losses*
Throughout 2019, the provision for credit losses generally increased in part as a result of changes to collective allowances stemming from changes to the macro-economic environment. As of the second quarter of 2020, provisions for credit losses were impacted by the COVID-19 pandemic, as higher expected credit losses were primarily driven by forward-looking economic scenarios which considered the recent recession.

*Non-interest expenses*
Non-interest expenses generally decreased throughout 2019 and 2020. In the second half of 2020, core expenses decreased as a result of lower salaries reflecting the headcount reduction implemented in May 2020, lower regulatory expenses and lower advertising, business development and travel costs ensuing from efficiency measures and current economic conditions. Restructuring charges mostly for the third quarter of 2020 also impacted the level of non-interest expenses.

# ANALYSIS OF FINANCIAL CONDITION

As at October 31, 2020, total assets amounted to $44.2 billion, relatively unchanged compared with $44.4 billion as at October 31, 2019, as the higher level of liquid assets mostly offset the decrease in loan portfolios.

## ASSETS

TABLE 13

**BALANCE SHEET ASSETS**

As at October 31 (Thousands of Canadian dollars, except percentage amounts)

| | **2020** | 2019 | 2018 | Variance 2020/2019 |
|---|---|---|---|---|
| Cash and deposits with banks | **$ 672,842** | $ 413,555 | $ 490,727 | 63 % |
| Securities | **5,799,216** | 6,299,936 | 6,061,144 | (8) |
| Securities purchased under reverse repurchase agreements | **3,140,228** | 2,538,285 | 3,652,498 | 24 |
| Loans | | | | |
| Personal | **4,120,875** | 4,660,524 | 5,372,468 | (12) |
| Residential mortgage | **16,341,890** | 16,039,680 | 16,986,338 | 2 |
| Commercial | **12,730,360** | 12,646,332 | 11,839,106 | 1 |
| Customers' liabilities under acceptances | **—** | 319,992 | 196,776 | (100) |
| | **33,193,125** | 33,666,528 | 34,394,688 | (1) |
| Allowances for loan losses | **(173,522)** | (100,457) | (93,026) | 73 |
| | **33,019,603** | 33,566,071 | 34,301,662 | (2) |
| Other assets | **1,535,771** | 1,535,280 | 1,388,652 | — |
| Balance sheet assets | **$ 44,167,660** | $ 44,353,127 | $ 45,894,683 | — % |
| Cash, deposits with banks, securities and securities purchased under reverse repurchase as a % of balance sheet assets | **21.8 %** | 20.9 % | 22.2 % | |

### Liquid assets

Liquid assets consist of cash, deposits with banks, securities and securities purchased under reverse repurchase agreements. As at October 31, 2020, these assets totaled $9.6 billion, an increase of $0.4 billion compared with $9.3 billion as at October 31, 2019.

We continue to prudently manage our level of liquid assets. The Bank's funding sources remain well diversified and sufficient to meet all obligations. Liquid assets represented 22% of total assets as at October 31, 2020, compared with 21% as at October 31, 2019.

Additional information on liquidity and funding risk management is included on page 59 of this MD&A.

### Loans

Loans and bankers' acceptances, net of allowances, stood at $33.0 billion as at October 31, 2020, a decrease of $0.5 billion or 2% compared with $33.6 billion as at October 31, 2019. During the year 2020, the negative impacts of COVID-19 hindered the Bank's ability to maintain its growth momentum in commercial loan portfolios. Variances are further explained in the "Loan portfolio mix" section on page 49 of this MD&A.

Additional information on the Bank's risk management practices and detailed disclosure on loan portfolios are provided in the "Risk Appetite and Risk Management Framework" section of this MD&A.

### Other assets

Other assets stood at $1.5 billion as at October 31, 2020, essentially unchanged compared with October 31, 2019. Of note, the adoption of IFRS 16, *Leases* led to the recognition of right-of-use assets of $139.4 million as of November 1, 2019 .

## LIABILITIES

TABLE 14
### BALANCE SHEET LIABILITIES
As at October 31(Thousands of Canadian dollars, except percentage amounts)

| | **2020** | 2019 | 2018 | Variance 2020/2019 |
|---|---|---|---|---|
| Deposits | | | | |
| Personal | **$ 18,796,150** | $ 19,747,260 | $ 20,995,453 | (5)% |
| Business, banks and other | **5,124,053** | 5,905,344 | 7,011,119 | (13) |
| | **23,920,203** | 25,652,604 | 28,006,572 | (7) |
| Other liabilities | **7,102,277** | 6,870,428 | 7,255,394 | 3 |
| Debt related to securitization activities | **10,184,497** | 8,913,333 | 7,787,753 | 14 |
| Subordinated debt | **349,442** | 349,101 | 348,762 | — |
| Balance sheet liabilities | **$ 41,556,419** | $ 41,785,466 | $ 43,398,481 | (1)% |
| Personal deposits as a % of total deposits | **78.6 %** | 77.0 % | 75.0 % | |
| Total deposits as a % of balance sheet liabilities | **57.6 %** | 61.4 % | 64.5 % | |

### Deposits
Deposits decreased by $1.7 billion or 7% to $23.9 billion as at October 31, 2020 compared with $25.7 billion as at October 31, 2019, in part to adapt to the reduction in loans and optimization of other funding sources. Personal deposits stood at $18.8 billion as at October 31, 2020, down $1.0 billion compared with October 31, 2019. The decrease resulted mainly from the lower term deposits sourced through intermediaries managed down to meet our funding needs, partly offset by higher volumes of demand deposits generated through the various direct to customer distribution channels of the Bank. Business and other deposits decreased by $0.8 billion over the same period to $5.1 billion, mostly due to a decrease in institutional funding as we optimized our funding sources given lower asset levels.

Personal deposits represented 79% of total deposits as at October 31, 2020, compared with 77% as at October 31, 2019, and contributed to our good liquidity position.

Additional information on deposits and other funding sources is included in the "Liquidity and Funding Risk Management" section on page 59 of this MD&A.

### Other liabilities
Other liabilities increased to $7.1 billion as at October 31, 2020 from $6.9 billion as at October 31, 2019. The year-over-year increase resulted mainly from higher obligations related to securities sold short associated with trading activities.

### Debt related to securitization activities
Debt related to securitization activities increased by $1.3 billion or 14% compared with October 31, 2019 and stood at $10.2 billion as at October 31, 2020. Since the beginning of the year, mortgage loan securitization through both the CMHC programs and a third-party program, as well as securitization of investment loans more than offset maturities of liabilities related to the Canada Mortgage Bond program, as well as normal repayments. For additional information on the Bank's securitization activities, please refer to Notes 8 and 15 to the Consolidated Financial Statements.

### Subordinated debt
Subordinated debt was essentially unchanged and stood at $349.4 million as at October 31, 2020, compared with $349.1 million as at October 31, 2019. Refer to Note 15 to the Consolidated Financial Statements for additional information. Subordinated debt is an integral part of the Bank's regulatory capital and affords its depositors additional protection.

## SHAREHOLDERS' EQUITY
Shareholders' equity amounted to $2,611.2 million as at October 31, 2020, compared with $2,567.7 million as at October 31, 2019.

Compared to a year ago, retained earnings decreased by $8.7 million, mainly as the net income contribution of $114.1 million was offset by dividends amounting to $104.1 million, as well as by other charges related to employee benefit plans and equity securities designated at fair value through other comprehensive income (FVOCI) of $11.4 million. As mentioned in the "Basis of Presentation" section, the adoption of IFRS 16 at the outset of the year also contributed to reduce retained earnings by $7.3 million as at November 1, 2019. Increases in accumulated other comprehensive income (AOCI) of $31.3 million and common share issuance of $20.3 million as part of the Bank's Shareholder Dividend Reinvestment and Share Purchase Plan, contributed positively to shareholders' equity. For additional information, please refer to the Consolidated Statement of Changes in Shareholders' Equity in the Annual Consolidated Financial Statements.

The Bank's book value per common share was $53.74 as at October 31, 2020 compared to $54.02 as at October 31, 2019.

The "Capital Management" section of this MD&A provides additional information on capital-related matters. The table below provides the details on share capital.

TABLE 15
**SHARES ISSUED AND OUTSTANDING**
As at November 27, 2020 (in number of shares/options)

| | |
|---|---|
| Preferred shares | |
| Series 13 | 5,000,000 |
| Series 15 | 5,000,000 |
| Common shares | 43,238,083 |
| Share purchase options[1] | 787,329 |

(1) Includes preliminary estimates related to this stock option award that was concluded at the end of the year and for which the final determination of the number of options and their fair value will be finalized in December 2020.

# OFF-BALANCE SHEET ARRANGEMENTS AND SECURITIZATION

In the normal course of its operations, the Bank uses structured entities to securitize financial assets, as detailed below. The Bank also enters into several arrangements that, under IFRS, are either not recorded on the Bank's balance sheet or are recorded in amounts that differ from the notional amounts. In particular, the Bank administers clients' assets that are not reported on the balance sheet. Moreover, off-balance sheet arrangements include derivatives, as well as credit commitments and guarantees, as detailed below.

## OFF-BALANCE SHEET ARRANGEMENTS

### Assets under administration

Assets under administration mainly include assets of clients to whom the Bank provides various administrative services. The Bank also administers retail and institutional investment portfolios. Table 16 below summarizes assets under administration. As at October 31, 2020 these items totalled $27.8 billion, down $1.1 billion or 4% compared with October 31, 2019. Fees, commissions and other income related to these assets contribute significantly to the Bank's profitability.

TABLE 16
**ASSETS UNDER ADMINISTRATION**
As at October 31 (Thousands of Canadian dollars)

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Registered and non-registered investment accounts | **$ 19,474,098** | $ 20,381,169 | $ 21,095,703 |
| Clients' brokerage assets | **4,045,863** | 4,462,402 | 4,028,458 |
| Mutual funds | **3,345,359** | 3,299,609 | 3,321,480 |
| Loans under administration | **788,032** | 662,530 | 643,675 |
| Institutional assets | **98,719** | 91,906 | 84,484 |
| Other | **6,955** | 8,100 | 7,863 |
| Assets under administration | **$ 27,759,026** | $ 28,905,716 | $ 29,181,663 |

Assets related to registered and non-registered investment accounts in B2B Bank Dealer Services and LBC Financial Services were down by $907.1 million year-over-year, reflecting some client attrition in the dealer services business, as well as lower market values of underlying investments. B2B Bank Dealer Services provides account administration, clearing and settlement, and reporting services to more than 300,000 investors, through its association with independent dealers and advisors across Canada. LBC Financial Services offers a team of investment representatives who support their clients with strategies to manage their portfolios, mainly through the Bank's Quebec Retail Network.

Clients' brokerage assets decreased by $416.5 million or 9% year-over-year, as a result of lower market values, as well as the impact of the wind-down of a client's operations.

Mutual fund assets under administration in LBC Financial Services, mainly composed of the preferred series of LBC-Mackenzie mutual funds, increased by $45.8 million or 1% year-over-year, mostly as a result of net sales, and despite the challenging market conditions in the Spring.

Loans under administration, including syndication activities and loans administered for third parties, increased by $125.5 million as a result of increased commercial activity and volumes. Loans under administration also include a $54.2 million pool of securitized mortgage loans, which has been derecognized. In addition, this line item includes loans administered under the new Canada Emergency Business Account (CEBA) amounting to $66.8 million as at October 31, 2020, as detailed below.

*Government program*
In response to the economic impact of COVID-19, the Canadian government has established, among other financial relief programs, the CEBA program to provide interest-free loans of up to $40,000 for small and medium-sized businesses and non-profit organizations. The Bank and several other financial institutions are authorized to implement this program in cooperation with Export Development Canada. This program is guaranteed by the Government of Canada and aims to help businesses cope with the economic challenges resulting from the COVID-19 crisis. Loans made by the Bank to its business clients under the CEBA program are not recognized on the Bank's Consolidated Balance Sheet, since the conditions of a qualifying pass-through arrangement have been met and the Bank has determined that substantially all risks and rewards of ownership of the loans have been transferred to the Canadian government.

### Derivative contracts

In the normal course of its operations, the Bank enters into various derivative contracts to protect itself against the risk of fluctuations in interest rates, foreign exchange rates, as well as stock prices and indices on which returns of index-linked deposits are based. Derivative contracts are also used to meet clients' requirements and generate revenues from trading activities. The Bank does not enter into any credit default swaps.

All derivatives are recorded on the balance sheet at fair value. Derivative values are calculated using notional amounts. However, these amounts are not recorded on the balance sheet, as they do not represent the actual amounts exchanged. Likewise, notional amounts do not reflect the credit risk related to derivatives, although they serve as a reference for determining the amount of cash flows to be exchanged. The notional amounts of the Bank's derivatives totalled $21.0 billion as at October 31, 2020 with a net positive fair value of $167.7 million.

Notes 23 to 26 to the Consolidated Financial Statements provide further information on the various types of derivative products and their recognition in the Consolidated Financial Statements.

### Credit commitments and guarantees

In the normal course of its operations, the Bank enters into various off-balance sheet credit instruments to meet the financing needs of its clients and earn fee income. These instruments may expose the Bank to liquidity and credit risk and are subject to adequate risk management. Table 22 details the maximum amount of additional credit that the Bank could be required to extend if the commitments are fully used.

In the normal course of its operations, the Bank also enters into guarantee agreements such as standby letters of credit and performance guarantees to support its clients. Table 17 details significant guarantees.

Note 30 to the Consolidated Financial Statements provides additional information.

TABLE 17
**CREDIT COMMITMENTS AND GUARANTEES**
As at October 31 (Thousands of Canadian dollars)

| | **2020** | 2019 |
|---|---|---|
| Undrawn amounts under approved credit facilities[1] | **$ 5,866,082** | $ 5,268,028 |
| Standby letters of credit and performance guarantees | **$ 226,475** | $ 161,182 |
| Documentary letters of credit | **$ 4,673** | $ 7,015 |

(1) Excluding credit facilities revocable at the Bank's option totalling $4.1 billion as at October 31, 2020 ($4.0 billion as at October 31, 2019)

## SECURITIZATION ACTIVITIES

The Bank uses structured entities to securitize residential mortgage loans, finance lease receivables and personal investment loans in order to optimize and diversify sources of funding and to enhance its liquidity position. The Bank consolidates certain of the intermediary structured entities when it has control over the entities and underlying assets, whereas certain structured entities are not consolidated when the Bank does not have control. The Bank primarily sells mortgage loans through the Canada Mortgage Bond (CMB) program and to third-party investors under the National Housing Act (NHA) Mortgage-Backed Securities (MBS) program set-up by the CMHC, as well as through other third-party multi-seller conduits set up by Canadian banks. Notes 8 and 15 to the Consolidated Financial Statements provide additional information on these transactions.

The Bank does not act as an agent for clients engaged in this type of activity and has no other significant involvement, such as liquidity and credit enhancement facilities, with any securitization conduit.

# CAPITAL MANAGEMENT

## GOVERNANCE

Management seeks to maintain an adequate level of capital that considers the Bank's targeted capital ratios and internal assessment of required capital that is aligned with the Bank's risk appetite, strategic plan and shareholders' expectations; is consistent with the Bank's targeted credit ratings; underscores the Bank's capacity to cover risks related to its business operations; provides depositor confidence; and produces an acceptable return for shareholders.

In order to achieve these objectives, the Bank leverages its capital management framework. This framework is underpinned by the Bank's Capital Management and Adequacy Policy which outlines the mechanisms for capital planning, management and adequacy assessment. A key component of the capital management framework, the Internal Capital Adequacy Assessment Process (ICAAP) evaluates capital adequacy relative to the Bank's risk profile and establishes the appropriate capital level for the year ahead. In setting its capital targets, management considers the ICAAP which takes into account results from the integrated stress tests using severe scenarios, as well as its assessment of the Bank's risk exposures in a non-stress environment. Both approaches rely on the Bank's risk registry to ensure all material risks are considered.

The capital targets established through the ICAAP set the minimum requirements incorporated in the Bank's Capital Plan.

Various bodies within the organization are involved in optimizing the Bank's capital.

- The *Board of Directors* annually approves the Capital Management and Adequacy Policy, the Capital Plan, as well as the Business Plan and Multi-Year Financial Plan.
- The *Risk Management Committee of the Board of Directors* reviews and approves, annually, capital-related documents, including the ICAAP and the integrated stress testing program. It also reviews the overall capital adequacy of the Bank on a quarterly basis.
- The *Corporate Risk Committee*, mandated by the Executive Committee, reviews the Bank's capital adequacy under internal and external measures and approves risk management processes and approaches supporting this objective.
- The *Asset-Liability Management Committee*, mandated by the Corporate Risk Committee, monitors regulatory capital ratios on a monthly basis.
- *Corporate Risk Management* provides oversight of the Bank's capital management framework. This includes monitoring capital limits and adequacy, as well as developing and implementing the Capital Management and Adequacy Policy, the ICAAP and the integrated stress testing exercise.
- *Corporate Finance* annually develops the Business Plan which includes the Multi-Year Financial Plan and the Capital Plan. It is also responsible for managing capital and updating the Capital Plan on an ongoing basis, as well as for measuring regulatory capital ratios. In addition, Corporate Finance has responsibility for maintaining compliance with regulatory capital adequacy requirements for each of the subsidiaries, which may include restrictions on the transfer of assets in the form of cash, dividends, loans or advances.

## REGULATORY CAPITAL

OSFI requires banks to meet minimum risk-based capital ratios drawn on the Basel Committee on Banking Supervision (BCBS) capital framework, commonly referred to as Basel III. Under OSFI's "Capital Adequacy Requirements" guideline, the Bank must maintain minimum levels of capital depending on various criteria. Tier 1 capital, the most permanent and subordinated forms of capital, consists of two components: Common Equity Tier 1 capital and Additional Tier 1 capital. Tier 1 capital must be more predominantly composed of common equity to ensure that risk exposures are backed by a high-quality capital base. Tier 2 capital consists of supplementary capital instruments and contributes to the overall strength of a financial institution as a going concern. Institutions are expected to meet minimum risk-based capital requirements for exposure to credit risk, operational risk and market risk.

Under OSFI's guideline, minimum Common Equity Tier 1, Tier 1 and Total capital ratios are set at 7.0%, 8.5% and 10.5% respectively including a 2.5% capital conservation buffer.

Certain banks in Canada have been designated by OSFI as Domestic Systemically Important Banks (D-SIBs). Under this designation, these banks must hold a further 1 % of Common Equity Tier 1 capital. OSFI also required D-SIBS to hold a Pillar 2 Domestic Stability Buffer (DSB) to protect against risks associated with systemic vulnerabilities. The buffer level, to vary between 0% and 2.5% of risk-weighted assets, is identical for all D-SIBs. The DSB was initially set at 2.0% as of October 31, 2019. In March 2020, OSFI announced that the DSB was being lowered to 1.0% of total risk-weighted-assets, as part of its response to COVID-19. As the Bank has not been designated as a D-SIB, these measures do not apply to the Bank.

The Basel Accord proposes a range of approaches of varying complexity, the choice of which determines the sensitivity of capital to risks. We are using the less complex Standardized Approach, which relies on regulatory weightings. As noted above, as part of our plan to improve the Bank's foundation, we are pursuing our initiative to adopt the AIRB approach to credit risk, which will use the Bank's internal estimates of risk components to establish risk-weighted assets and calculate regulatory capital. In the current context of the pandemic, we are now expecting to complete the process toward the end of 2023. The AIRB approach will strengthen our credit risk management, optimize regulatory capital and provide a level playing field for credit underwriting activities.

Capital adequacy requirements are applied on a consolidated basis, as further discussed in Note 2 of the Consolidated Financial Statements, except for the Bank's participation in a reinsurance company (Venture Reinsurance Ltd.), which is excluded from the regulatory scope of consolidation.

**Regulatory capital developments in support of COVID-19 efforts**

Over the months of March and April 2020, OSFI announced several measures to afford financial institutions further flexibility in addressing current conditions due to COVID-19, including notably:

- treating as performing loans (under the Capital Adequacy Requirements Guideline) all mortgages and certain types of loans (e.g. small business loans, retail loans, including credit cards, and mid-market commercial loans) where payment deferrals are granted by the financial institution, up to a maximum of 6 months;
- recognizing as Common Equity Tier 1 (CET1) capital a portion of the credit allowances that would otherwise be included in Tier 2 capital[1] and;
- excluding from the leverage ratio calculation the central bank reserves and sovereign-issued securities that qualify as High-Quality Liquid Assets (HQLA) under the Liquidity Adequacy Requirements Guideline, until April 30, 2021.

(1) An adjustment to CET1 capital will be dynamically measured each quarter as the increase in Stage 1 and Stage 2 expected credit loss allowances relative to the baseline level. The baseline level is the amount of Stage 1 and Stage 2 allowances as at the quarter ending January 31, 2020. This increased amount is adjusted for tax effects and subject to a scaling factor that will decrease over time. The scaling factor will be set at 70% in fiscal 2020, 50% in fiscal 2021 and 25% in fiscal 2022.

OSFI expects that banks will use the additional lending capacity arising from the measures described above to support Canadian businesses and households and should not use these measures to increase distributions to shareholders or employees or to undertake share buybacks. Consistent with this, OSFI has communicated, on March 13, 2020, the expectation for all federally regulated financial institutions that dividend increases and share buybacks should be halted for the time being.

On August 31, 2020, OSFI updated its guidance related to the temporary special capital treatment of loans that have been granted payment deferrals in support of COVID-19 efforts. Under this new guidance, the temporary special capital treatment for payment deferrals granted prior to August 31 will remain limited to a maximum of six months. The guidance also introduces transitional provisions (up to a maximum of 3 months) for payment deferrals granted after this date and until September 30, 2020. The impact of this new guidance should be limited and will be reflected as of and when loans become past due later in 2020 and in 2021.

**Other regulatory capital developments**

*Revisions to the capital and liquidity requirements for small and medium-sized deposit-taking institutions*

OSFI released on January 17, 2020 a consultative document titled SMSB Capital and Liquidity Requirements which proposes changes to the capital and liquidity requirements for Small and Medium-Sized Deposit-Taking Institutions (SMSB). The purpose of this consultative document is to provide stakeholders with an overview of feedback that was received in response to the July 2019 Discussion Paper (Advancing Proportionality: Tailoring Capital and Liquidity Requirements for Small and Medium-Sized Deposit-Taking Institutions) and an update regarding the development of the Pillar 1 SMSB capital and liquidity frameworks. The document outlines changes which are proposed to the framework and seeks further feedback from stakeholders in advance of the publication of draft SMSB capital and liquidity requirements. In order to provide additional operational capacity for banks and supervisors to respond to the immediate financial stability priorities resulting from the impact of COVID-19 on the global banking system, OSFI delayed the timing for the implementation of the Small and Medium Sized Banks (SMSB) Capital and Liquidity framework to the beginning of the first quarter of 2023. OSFI has also delayed the consultation work on Pillar 2 and Pillar 3 capital and liquidity requirements for SMSBs.

*Revisions to the Pillar 3 disclosure*

The Pillar 3 disclosure framework seeks to promote market discipline through regulatory disclosure requirements. In January 2015, March 2017 and December 2018, the BCBS issued a series of updates to the Pillar 3 disclosure requirements framework. We are awaiting OSFI's related guidance for non-D-SIBs.

*Canadian Bank Recapitalization (Bail-in) Regime*

On September 23, 2018, the Canadian Bail-in regime came into effect, including OSFI's Total Loss Absorbing Capacity (TLAC) guideline. These new requirements were implemented to limit taxpayer exposure to losses of a failing institution and ensure the institution's shareholders and creditors remain responsible for bearing such losses. Under the regulations, in certain circumstances when OSFI has determined that a bank may no longer be viable, the CDIC may be instructed to convert all or a portion of certain preferred shares and subordinated liabilities of that bank into common shares. TLAC is defined as the aggregate of Tier 1 capital, Tier 2 capital, and other TLAC instruments (such as unsecured notes), which allow conversion in whole or in part into common shares under the CDIC Act and meet all the eligibility criteria under the guideline. Under this guideline, D-SIBs banks are required to meet supervisory risk-based TLAC and TLAC leverage ratio targets by November 1, 2021.

As the Bank has not been designated as a D-SIB, these changes do not apply and are not expected to have any effect on the Bank or on the capital instrument it may issue.

Tables 18 and 19 outline the regulatory capital and risk-weighted assets (RWA) used to calculate regulatory capital ratios. The Bank complied with OSFI's capital requirements throughout the year.

TABLE 18
## REGULATORY CAPITAL
As at October 31 (Thousands of Canadian dollars, except percentage amounts)

| | **2020** | 2019 |
|---|---|---|
| **Regulatory capital**[1] | | |
| Common Equity Tier 1 capital | **$ 1,893,079** | $ 1,841,382 |
| Tier 1 capital | **$ 2,137,117** | $ 2,085,420 |
| Total capital | **$ 2,571,212** | $ 2,497,108 |
| **Total risk-weighted assets**[2] | **$ 19,669,263** | $ 20,406,556 |
| **Regulatory capital ratios** | | |
| Common Equity Tier 1 capital ratio | **9.6 %** | 9.0 % |
| Tier 1 capital ratio | **10.9 %** | 10.2 % |
| Total capital ratio | **13.1 %** | 12.2 % |

(1) The Common Equity Tier 1, Tier 1 and Total capital ratios excluding the ECL transitional arrangements were 9.5%, 10.7% and 13.1% respectively as at October 31, 2020.
(2) Using the Standardized approach in determining credit risk and operational risk.

The Common Equity Tier 1 capital ratio stood at 9.6% as at October 31, 2020, compared with 9.0% as at October 31, 2019. The increase compared with October 31, 2019 mainly results from the lower level of assets resulting from the current COVID-19 situation. This level of capital provides the Bank with the necessary operational flexibility to resume growth and to pursue key initiatives, prudently considering the economic conditions.

The graph below shows the change in Common Equity Tier 1 capital ratio from October 31, 2019 to October 31, 2020.

**CHANGE IN COMMON EQUITY TIER 1 CAPITAL RATIO**
(In percentage)

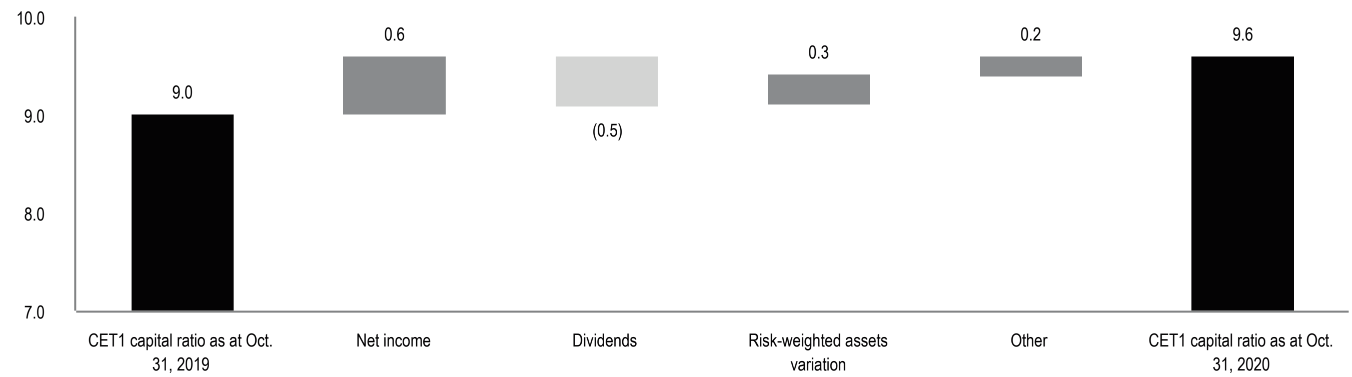


TABLE 19
### RISK-WEIGHTED ASSETS
As at October 31 (Thousands of Canadian dollars)

| | **2020** | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Total exposure** | **Risk-weighted assets[1]** | **Capital requirements** | Total exposure | Risk-weighted assets[1] | Capital requirements |
| **Exposure Class (after risk mitigation)** | | | | | | |
| Corporate | **$ 9,628,030** | **$ 9,643,843** | **$ 675,069** | $ 10,092,564 | $ 10,042,695 | $ 702,989 |
| Sovereign | **7,886,895** | **67,820** | **4,747** | 6,391,251 | 50,006 | 3,500 |
| Bank | **476,366** | **98,471** | **6,893** | 463,256 | 102,765 | 7,194 |
| Retail residential mortgage loans | **18,525,439** | **2,944,316** | **206,102** | 18,197,377 | 3,276,607 | 229,362 |
| Other retail | **1,781,945** | **1,082,493** | **75,775** | 2,028,742 | 1,233,815 | 86,367 |
| Small business entities treated as other retail | **1,730,247** | **1,290,010** | **90,301** | 2,031,275 | 1,518,425 | 106,290 |
| Equity | **307,694** | **307,694** | **21,539** | 393,011 | 393,011 | 27,511 |
| Securitization | **4,275** | **3,003** | **210** | 9,985 | 6,405 | 448 |
| Other assets | **1,556,397** | **788,120** | **55,168** | 1,493,918 | 649,619 | 45,473 |
| | **41,897,288** | **16,225,770** | **1,135,804** | 41,101,379 | 17,273,348 | 1,209,134 |
| Derivatives | **236,712** | **133,068** | **9,315** | 269,732 | 136,806 | 9,576 |
| Credit commitments | **1,658,830** | **1,607,200** | **112,504** | 1,351,657 | 1,313,177 | 91,922 |
| Operational risk | | **1,703,225** | **119,226** | | 1,683,225 | 117,826 |
| | **$ 43,792,830** | **$ 19,669,263** | **$ 1,376,848** | $ 42,722,768 | $ 20,406,556 | $ 1,428,459 |
| **Balance sheet items** | | | | | | |
| Cash, deposits with banks, securities and securities financing transactions | | **$ 720,886** | | | $ 772,798 | |
| Personal loans | | **1,312,789** | | | 1,513,148 | |
| Residential mortgage loans | | **3,239,658** | | | 3,541,953 | |
| Commercial loans and acceptances | | **10,365,192** | | | 10,972,139 | |
| Other assets | | **587,245** | | | 473,310 | |
| | | **$ 16,225,770** | | | $ 17,273,348 | |

(1) To determine the appropriate risk weight, credit assessments by OSFI-recognized external credit rating agencies of Standard & Poor's, Moody's and DBRS are used. Under the Standardized approach, the Bank assigns the risk weight corresponding to OSFI's standard mapping. For most of the Bank's exposures to sovereign and bank counterparties, which are predominantly domiciled in Canada, these risk weights are based on Canada's AAA rating. In addition, the Bank relies on external ratings for certain rated exposures, essentially in the corporate class. For unrated exposures, mainly in the retail and corporate classes, the Bank generally applies prescribed risk weights taking into consideration certain exposure specific factors including counterparty type, exposure type and credit risk mitigation techniques employed.

## BASEL III LEVERAGE RATIO

The Basel III capital reforms introduced a non-risk-based leverage ratio requirement to act as a supplementary measure to the risk-based capital requirements. Under OSFI's Leverage Requirements Guideline, federally regulated deposit-taking institutions are expected to maintain a Basel III leverage ratio that always meets or exceeds 3%. The leverage ratio is defined as the Tier 1 capital divided by unweighted on-balance sheet assets and off-balance sheet commitments, derivatives and securities financing transactions, as defined within the requirements.

As detailed in the table below, the leverage ratio stood at 4.8% as at October 31, 2020 and exceeded current requirements.

TABLE 20
### BASEL III LEVERAGE RATIO
As at October 31 (Thousands of Canadian dollars, except percentage amounts)

| | **2020** | 2019 |
|---|---|---|
| Tier 1 capital | **$ 2,137,117** | $ 2,085,420 |
| Total exposures | **$ 44,452,632** | $ 45,475,982 |
| Basel III leverage ratio[1] | **4.8 %** | 4.6 % |

(1) The Basel III leverage ratio excluding the ECL transitional arrangements was 4.8% as at October 31, 2020.

## DIVIDENDS

The Board of Directors must approve dividend payments on preferred and common shares on a quarterly basis. The declaration and payment of dividends are subject to certain legal restrictions, as explained in Note 17 to the Consolidated Financial Statements. The level of dividends declared on common shares reflects management and Board views of the Bank's financial outlook and takes into consideration market and regulatory expectations, as well as the Bank's growth objectives in its strategic plan. The following table summarizes dividends declared for the last three years.

On December 3, 2020, the Board of Directors declared a quarterly dividend of $0.40 per common share, payable on February 1, 2021 to shareholders of record on January 2, 2021. At the end of the second quarter of 2020, Management recommended, and the Board of Directors approved, a reduction of the quarterly dividend of $0.27 or 40%. Given the highly uncertain environment, this prudent decision is providing us with additional operational flexibility to resume growth. Furthermore, this better aligns with our dividend policy until we reap the anticipated benefits from our transformation. Shares attributed under the Bank's Shareholder Dividend Reinvestment and Share Purchase Plan will continue to be made in common shares issued from Corporate Treasury at a 2% discount.

TABLE 21
**SHARE DIVIDENDS AND PAYOUT RATIO**
For the years ended October 31 (Thousands of Canadian dollars, except per share and percentage amounts)

| | | **2020** | | 2019 | | 2018 |
|---|---|---|---|---|---|---|
| Dividends declared on preferred shares | **$** | **12,466** | $ | 12,632 | $ | 13,688 |
| Dividends declared per common share | **$** | **2.14** | $ | 2.62 | $ | 2.54 |
| Dividends declared on common shares | **$** | **91,630** | $ | 110,737 | $ | 104,493 |
| Dividend payout ratio | | **90.2 %** | | 69.3 % | | 49.6 % |
| Adjusted dividend payout ratio[1] | | **72.9 %** | | 61.4 % | | 45.9 % |

(1) Refer to the Non-GAAP and Key Performance Measures section.

# RISK APPETITE AND RISK MANAGEMENT FRAMEWORK

The shaded areas in the following sections of this MD&A represent a discussion on risk management policies and procedures relating to credit, market, and liquidity and funding risks as required under IFRS 7, *Financial Instruments - Disclosures*, which permits these specific disclosures to be included in the MD&A. Therefore, these shaded areas form an integral part of the Consolidated Financial Statements for the years ended October 31, 2020 and 2019.

## RISK CULTURE

We are dedicated to promoting a risk management culture throughout Laurentian Bank Financial Group. This is achieved by setting a "tone-from-the top" that focuses on the importance of risk culture and delivering this message through a comprehensive risk governance structure and risk appetite framework. Together, these instill a sense of responsibility for risk management throughout the Bank.

## IMPACT OF COVID-19 PANDEMIC ON THE BANK'S RISK PROFILE

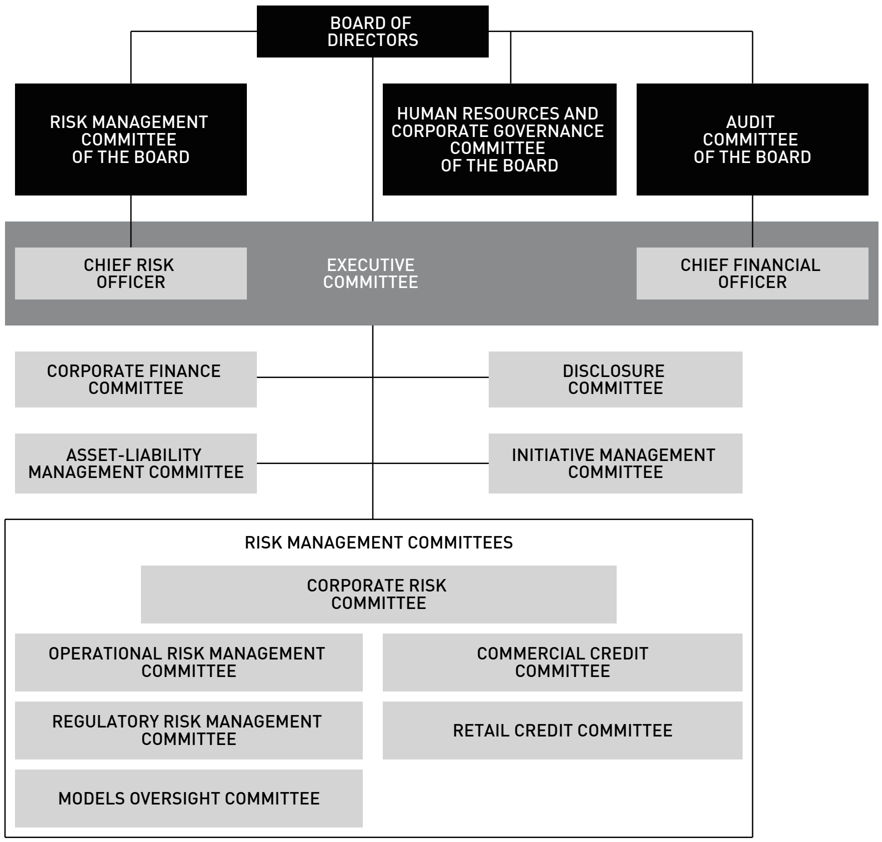
In March 2020, the World Health Organization declared COVID-19 as a global pandemic. Governments have implemented emergency measures such as travel restrictions, border restrictions, business closures and physical distancing in order to reduce the spread of the virus. These measures have resulted in a significant impact to business activities and the economy. Governments and other regulatory entities have introduced various personal and business relief programs and changes to the monetary policy in order to stabilize the economy.

Although these measures are necessary to keep the pandemic under control, they have heightened some of the risks the Bank is exposed to, especially considering the uncertainty associated with the scope and duration of the pandemic. As the pandemic continues, and until the virus has been brought under control, its impact on the global economy could worsen, threatening our customers' solvency, and accentuate volatility in the financial markets. Deteriorating credit and market conditions may also adversely impact our strategic position, expected credit losses and earnings.

The Bank's risk management framework provides the necessary mechanisms to manage the impact of the crisis on its business and operations. The core risk factors relating to the Bank's operations are described in this "Risk Appetite and Risk Management Framework" section. In addition to other impacts identified under the heading "COVID-19 Pandemic" of this Annual Report and in the "Economic Outlook" section, the pandemic has altered the Bank's risk profile, as further described below.

## RISK GOVERNANCE STRUCTURE

The Board of Directors has ultimate responsibility for risk management. Each year, the Risk Management Committee of the Board reviews the risk appetite and approves the risk management policies. It thereafter delegates to senior management the responsibility for defining their parameters and communicating and implementing them accordingly. The Executive Committee plays an active role through the Corporate Risk Committee in identifying, assessing and managing risk. Business unit managers are responsible for applying the policies and, in collaboration with Corporate Risk Management, keeping the Corporate Risk Committee informed about any changes in risk profile.




### Roles and responsibilities of the Board of Directors' committees

The *Board of Directors* ensures that the Bank maintains an appropriate strategic management process that takes risk into consideration. Moreover, based on the certifications and consolidated reports prepared by management, the Board of Directors assesses annually whether the Bank's operations are carried out in an environment favourable to internal control.

The *Risk Management Committee of the Board* assures whether the Framework has been properly implemented and periodically reviews its effectiveness. The Committee must also ensure that the Framework provides an appropriate risk management process for identifying, measuring, quantifying and managing risks, as well as implementing appropriate risk management policies.

The *Human Resources and Corporate Governance Committee of the Board* is constituted by the Board of Directors to support it in exercising its human resources and corporate governance functions.

The *Audit Committee of the Board* is responsible for supporting the Board of Directors in overseeing the integrity of the Bank's financial statements, the relevance and effectiveness of its internal controls, the qualifications and independence of the external auditor and the performance of the internal audit function and of the external auditor.

### Roles and responsibilities of other risk management committees of the Bank

The *Executive Committee*, chaired by the President and Chief Executive Officer, is the Bank's ultimate risk management committee. It ensures that the Risk Management Framework is properly implemented. Senior management plays an active role in identifying, assessing and managing risk and is responsible for implementing the necessary framework for the management of all material risks.

The *Corporate Finance Committee*, chaired by the Chief Financial Officer, is responsible for monitoring the Bank's financial performance as well as products/fee structures and risks that may impact the Bank's results in the short or long term.

The *Disclosure Committee*, chaired by the Chief Financial Officer, is responsible for reviewing and approving the Bank's financial information subject to public or regulatory disclosure.

The *Asset-Liability Management Committee*, chaired by the Chief Financial Officer, is responsible for evaluating the structural risks associated with the Bank's assets and liabilities. The committee reviews and monitors interest rate risk while ensuring adequate returns and liquidity. The committee is also responsible for capital funding.

The *Corporate Risk Committee*, chaired by the Chief Risk Officer, is mandated to monitor and oversee the management of all material risks of the Bank. The objective of the committee is to assist the Executive Committee in its ultimate responsibility for risk management. The Corporate Risk Committee ensures that the Bank maintains and adheres to a robust and current suit of risk policies, including a risk appetite framework, and recommends such policies for approval by the Executive Committee.

The *Operational Risk Management Committee*, chaired by the Vice President, Operational Risk, reviews the operational risk management policies and the reports on operational losses incurred. Furthermore, it reviews and approves tools for identifying and assessing the frequency and the impact of operational risks. The Operational Risk Management Committee is responsible for monitoring business continuity plans and fraud prevention. The Operational Risk Management Committee reports into the Corporate Risk Committee.

The *Regulatory Risk Committee*, chaired by the Chief Compliance Officer, is responsible for the oversight of the Regulatory Risk Management program. It is mandated to monitor and review all activities related to the regulatory risks to which the Bank may be exposed. The Regulatory Risk Committee reports into the Corporate Risk Committee.

The *Retail and Commercial Credit Committees*, chaired by the Vice President, Credit, are responsible for approving loans within set limits. They also review delinquency on all types of loans, supervise the impaired loan resolution process and ensure the adequacy of the provisions for credit losses. The Credit Committees report into the Corporate Risk Committee.

The *Models Oversight Committee*, chaired by the Chief Risk Officer, is responsible for the Bank's model risk management, overseeing all the stages of the model management life cycle.

## RISK MANAGEMENT FRAMEWORK

Risk management is essential for the Bank to achieve its financial objectives while keeping the Bank's risk profile within its stated risk appetite. The main objective of the Bank's Risk Management Framework (the "Framework") is to promote and maintain a strong risk management culture enterprise-wide, enabling senior management to ensure the existence of sound practices necessary for the efficient and prudent management of the Bank's operations and major risks.

The Framework defines the risk governance structure, risk management processes and major risks the Bank may encounter. The internal control structure and corporate governance that promotes sound integrated risk management is also presented in the Framework. The Framework is updated regularly to reflect the Bank's changing business environment.

The main objective of the Framework is to promote and maintain a risk management culture in the Bank's business units and subsidiaries. Other objectives of the Framework include:

- Communicate key principles which support the Bank's approach to managing risk across the organization and establish the appropriate tone for desired behaviours;
- Adopt sound and prudent risk management policies;
- Define the committees' roles and responsibilities regarding risk management;
- Ensure risk management processes align with strategic, financial and capital plans;
- Establish processes to continuously identify, understand and assess material risks as well as internal control mechanisms.

The Framework outlines the Bank's process for identification of material risks. This process is achieved using a central risk registry that is applicable to the entire enterprise. By using a common taxonomy, the risk registry facilitates risk-related discussions throughout the Bank. Tolerances are established within the Framework for each identified material risk.

## RISK APPETITE

Risk taking is a necessary part of the Bank's business. As such, its business strategies incorporate decisions regarding the risk/reward trade-offs the Bank is willing to make and the means with which it will manage and mitigate those risks. The Bank has determined a risk appetite, which is defined in the Risk Appetite Framework Policy, and continuously attempts to maintain a balance between its risk appetite and risk capacity. Risk Appetite is dynamic and may be influenced by changes in the regulatory and macroeconomic environments. The Board of Directors is responsible for the annual review and approval of the Bank's risk appetite.

Risk appetite is defined as the risk level that the organization is prepared to accept to achieve its financial and strategic objectives. It is defined by business niche, type and level of risk, performance objectives, capital, liquidity, and external ratings. It is achieved through the imposition of limits and thresholds on various key risk indicators to ensure that the Bank's risk profile remains in line with its risk appetite.

Main objectives of the Risk Appetite Framework include:

- Communicate the Bank's expectations regarding acceptable risk levels in the pursuit of its strategic and business objectives;
- Align with the Bank's strategic, financial and capital plans to ensure coherence between the processes.

## INTEGRATED STRESS TESTING PROGRAM

Stress testing is a risk management technique that helps the Bank understand and assess its vulnerability and resilience to exceptional but plausible events. As a forward-looking tool, stress testing complements other quantitative risk management techniques and is used by senior management for strategic decision making. Stress testing is a fundamental part of the Bank's risk management and risk appetite framework and is incorporated in the Bank's ICAAP. As such, it helps in setting and achieving internal capital targets that are consistent with the Bank's strategic plan, risk profile and operating environment.

In developing scenarios, the Bank's enterprise-wide stress testing program brings together the views of experts from various departments, including Economic Research, Corporate Finance, Corporate Treasury and Corporate Risk Management. These experts evaluate scenarios that display a range of severities, including scenarios that challenge the viability of the Bank (reverse stress testing).

The Corporate Risk Committee oversees the execution of the stress testing program, including the design of scenarios and contingency planning. The results are reviewed by Corporate Risk Committee and presented to the Board, which is responsible for the overall stress testing program.

## CRISIS RECOVERY PLAN

The Bank maintains a Crisis Recovery Plan that describes a range of actions to be taken in the event of a financial stress: capital or liquidity situations. The primary goal of such a Plan is to develop a list of possible actions that would enable the Bank to respond promptly to a wide range of internal and external stresses, to return to normal operating conditions as fast as possible and maintain the confidence of its stakeholders. This Plan is reviewed and approved annually by the Board of Directors.

## FUNCTIONS SUPPORTING RISK MANAGEMENT

The following table presents the Bank's corporate control, which includes several governance functions designed to enhance risk management. The corporate functions are designed in respect of the "three lines of defence" model. This corporate control is divided into three distinct areas: operations, control environment and internal audit:

- *Operations* are key to risk management as business unit managers take risks and are accountable for their ongoing management. Business unit managers are on the front lines to identify and actively manage risks by applying the risk policies and implementing controls and risk mitigation measures. They are the first line of defence.
- The *Control Environment* hinges on five functions: risk management, regulatory risk management, financial certification, human resources and strategic planning. Together these groups provide independent oversight, effective challenge, and independent assessment of risk management practices. The risk management, regulatory risk management, and select corporate functions constitute the second line of defence of the Bank.
- The *Internal Audit* function also plays a key role as a third line of defence. It is responsible for implementing and maintaining a reliable and comprehensive system to adequately monitor the effectiveness of controls exercised within the different Framework functions.

In addition, regulatory and statutory requirements are an integral part of the Bank's Framework.

| OPERATIONS (FIRST LINE OF DEFENCE) | CONTROL ENVIRONMENT (SECOND LINE OF DEFENCE) | INTERNAL AUDIT (THIRD LINE OF DEFENCE) |
|---|---|---|
| **Business activities and corporate functions** | **Risk management and oversight functions** | **Independent assurance function** |
| - Policy implementation<br>- Risk identification, detection and management<br>- Disclosure of risks and losses<br>- Control implementation<br>- Business continuity plans<br>- Application of the regulatory risk management framework | - Designing and developing policies and frameworks<br>- Determining risk management thresholds<br>- Development of risk measurement and self-assessment tools<br>- Risk reporting and disclosure<br>- Assessment of business continuity plans<br>- Independent review of risk management practices. | - Providing an independent assurance to the Executive Committee and to the Board of Directors on the effectiveness of risk management practices |

## RISK MANAGEMENT PROCESS

The Bank's risk management processes are closely tied to the strategic planning process from which the Bank's strategic and business plans are derived. These processes converge during the development of the Bank's integrated financial plan. Policies approved by the Board are implemented by the business units and their application is monitored by the appropriate risk management committees.

Risk management is carried out across departments by various business unit managers who actively oversee the management of risks related to their activities, as well as by risk management and internal control professionals.

## CREDIT RISK MANAGEMENT

### Credit risk

Credit risk is the risk of a financial loss occurring if a counterparty (including a debtor, an issuer or a guarantor) in a transaction fails to fully honour its contractual or financial obligations towards the Bank.

### Credit risk management

Credit risk management is independent of operations, thus protecting the independence and integrity of risk assessment.

The Credit Committees and the Corporate Risk Committee are responsible for operational oversight of overall credit risk management. The Chief Risk Officer report, presented quarterly to the Executive Committee and to the Risk Management Committee of the Board, provides a summary of key information on credit risks. The credit risk management policies adopted by the Bank provide for appropriate risk assessments. These policies cover approval of credit applications by authority level, assignment of risk ratings, management of impaired loans, establishment of individual and collective allowances, and risk-based pricing. The policies are periodically reviewed and approved by the Risk Management Committee of the Board.

Through its Credit Risk Management Department, the Bank monitors its credit portfolios on a qualitative and quantitative basis through: (i) mechanisms and policies governing the review of the various types of files, (ii) risk rating systems, and (iii) pricing analysis.

The Bank uses expert systems to support the decision-making process for most underwriting of consumer credit, residential mortgage loans and credit cards, as well as for small commercial loans. Regarding commercial loans, applications are also analyzed on a case-by-case basis by specialized teams.

The Bank has various risk management tools at its disposal. These namely include a 19-level risk rating system used to evaluate all types of commercial credit. Above a specific rating, files are under credit watch and are managed per specific procedures. Regarding portfolio quality, a loan or a group of loans are impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and that has an impact on the estimated future cash flows of the loan or a group of loans that can be reliably estimated.

The Bank's risk management framework is applied to the determination of expected credit losses. The Bank has policies and procedures that govern impairments arising from credit risk. These policies are documented and periodically reviewed by the risk management function. Each month, the Bank's Retail Credit Committee reviews analyses on various credit metrics to identify risks and trends that might affect the retail portfolios. The Bank's Commercial Credit Committee also reviews material impaired loans as well as analyses on other impaired loans where payment is past due by 90 days or more. Collection processes are centralized and are based on specialized expertise. Complex questions on measurement methodologies and assumptions are reviewed by a group of experts from various functions. Furthermore, the inputs and assumptions used to determine expected credit losses are reviewed on a regular basis by the risk management function.

Individual allowances for losses are established to adjust the carrying amount of material impaired loans to the present value of estimated expected future cash flows. Allowances for impaired loans to businesses are revised on an individual basis, as part of a continuous process.

A collective allowance is calculated for all individually insignificant loans for which no individual impairment tests are performed. In addition, a collective allowance is calculated for loans that have been assessed for impairment individually and found not to be impaired. These loans are assessed collectively, in groups of assets with similar risk characteristics, to determine whether a provision should be made due to incurred but not identified loss events. To establish collective allowances, the Bank uses credit risks models based on the internal risk rating of credit facilities. The key parameters driving these models are:

- Probability of default (PD): An estimated percentage that represents the likelihood of default within a given time period of an obligor for a specific rating grade or for a specific pool of exposure.
- Exposure at default (EAD): An amount expected to be owed by an obligor at the time of default.
- Loss given default (LGD): An estimated percentage of EAD that is not expected to be recovered during the collections and recovery process.

Forward-looking macroeconomic factors such as gross domestic product (GDP), unemployment rates, housing price indices and S&P/TSX index forecasts are also considered for these risk parameters.

Each credit facility is assigned an LGD rate that is largely driven by factors that impact the extent of losses anticipated in the event the obligor defaults. These factors mainly include seniority of debt, collateral security, and the industry sector in which the obligor operates. Estimated LGD rates draw primarily on internal loss experience, supplemented by external data. EAD is estimated based on the current exposure to the obligor and the possible future changes in that exposure driven by factors such as the nature of the credit commitment. Estimates of PD, LGD and EAD are validated by an independent validation team within the Bank, on a regular basis.

Additional information on impaired loans and allowances is provided in Note 7 to the Consolidated Financial Statements and in Tables 23 to 28. Refer to page 50 for further details about the COVID-19 impact on credit risk and measurement uncertainty of expected credit loss estimates.

Diversification is one of the fundamental principles of risk management. To this effect, the Credit Policy establishes guidelines to limit concentration of credit by counterparty and sector of activity, and identifies sectors considered too risky and thus outside the Bank's risk appetite. Concentration of credit risk may also exist where several counterparties engaged in similar activities are in the same geographic area or have comparable economic characteristics and where their ability to meet contractual obligations could be compromised by changing economic, political or other conditions.

**Derivative-related credit risk**

Most of the Bank's credit concentration in derivatives lies with financial institutions, primarily Canadian banks. Credit risk in derivative transactions arises from a potential counterparty default on contractual obligations when one or more transactions have a positive replacement cost for the Bank. Replacement cost represents what it would cost to replace transactions at prevailing market conditions in the event of a default. The credit equivalent amount arising from a derivative transaction is defined as the sum of the replacement cost plus an estimated amount reflecting the potential change in market value of the transaction through to maturity.

Derivative-related credit risk is generally managed using the same credit approval, limit and monitoring standards as those used for managing other credit transactions. Moreover, the Bank negotiates derivative master netting agreements with all significant counterparties with which it contracts. These agreements reduce credit risk exposure in the event of a default by providing for the simultaneous netting of all transactions with a given counterparty. These contracts also allow the Bank to require the counterparty to pay, collateralize or guarantee the current market value of its positions when the value exceeds a given threshold. For all significant financial counterparties, the Bank actively manages these rights and requires collateral to be posted daily.

**Wrong-way risk**

Wrong-way risk is the risk that exposure to a counterparty or obligor is adversely correlated with the credit quality of that counterparty. There are two types of wrong-way risk:

- Specific wrong-way risk, which exists when our exposure to a specific counterparty is positively and highly correlated with the probability of default of the counterparty due to the nature of our transactions with them (e.g., loan collateralized by shares or debt issued by the counterparty or a related party); and
- General wrong-way risk, which exists when there is a positive correlation between the probability of default of counterparties and general macroeconomic or market factors. This typically occurs with derivatives (e.g., the size of the exposure increases) or with collateralized transactions (e.g., the value of the collateral declines).

**Exposure to credit risk**

The amount that best represents the Bank's exposure to credit risk as at October 31, 2020 and 2019 without factoring in any collateral held or other credit enhancements, represents the sum of financial assets in the Bank's consolidated balance sheet, plus credit commitments as set out below.

TABLE 22

**EXPOSURE TO CREDIT RISK**

As at October 31 (Millions of Canadian dollars)

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Financial assets, as stated in the consolidated balance sheet[1] | $ | **43,084** | $ | 43,318 |
| Credit commitments[2] | | **5,871** | | 5,275 |
| | $ | **48,955** | $ | 48,593 |

(1) Excluding equity securities.

(2) Excluding credit facilities revocable at the Bank's option totalling $4.1 billion as at October 31, 2020 ($4.0 billion as at October 31, 2019).

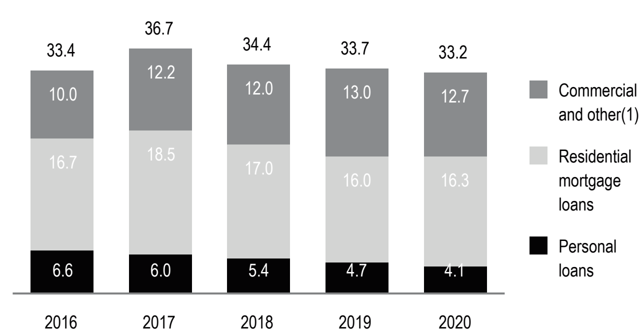
**Loan portfolio mix**

The Bank's loan portfolio consists of personal loans, residential mortgage loans and commercial loans, including customers' liabilities under acceptances.

Exposures related to personal loans and residential mortgage loans represented 62% of the Bank's total loan portfolio as at October 31, 2020, compared with 61% a year ago. Commercial loans, including customers' liabilities under acceptances accounted for 38% of total loans as at October 31, 2020, compared with 39% a year ago.

**LOAN PORTFOLIO MIX**

As at October 31 (in billions of Canadian dollars)




(1) Including customers' liabilities under acceptances.

*Personal loans*
The personal loan portfolio includes a range of consumer credit products such as investment loans, home-equity lines of credit (HELOCs), credit cards, personal lines of credit and other consumer loans. Personal loans amounted to $4.1 billion as at October 31, 2020, a decrease of $0.5 billion or 12% since October 31, 2019, mainly as a result of the continued reduction in the investment loan portfolio, reflecting the continued reduction in the use of leverage by consumers, as well as, to a lesser extent, the decrease in other retail exposures.

*Residential mortgage loans*
The residential mortgage loan portfolio includes retail mortgage loans secured by one- to four-unit dwellings. Residential mortgage loans amounted to $16.3 billion as at October 31, 2020, an increase of $0.3 billion or 2% since October 31, 2019. The acquisition of mortgage loans from third parties, as part of our program to optimize the usage of the National Housing Act mortgage-backed securities allocations, has contributed to mitigating the impact of maturities.

Over the recent years, the Bank has made significant progress towards diversifying its geographical footprint. The residential mortgage loan portfolio contributes to this geographic diversification across Canada. Table 27 presents the geographic distribution of residential mortgage loans.

*Commercial loans*
The commercial loan portfolio, including customers' liabilities under acceptances, comprises commercial loans in specific markets where the Bank can efficiently compete across Canada, as well as in the U.S. Commercial loans and acceptances amounted to $12.7 billion as at October 31, 2020, a decrease of 2% since October 31, 2019. This decrease was mainly due to inventory financing volumes which were negatively impacted by the COVID-19 pandemic as a result of higher repayments due to the increased demand for boats and other recreational vehicles in Canada and the U.S. The inability of dealers to replenish their inventory as a result of the manufacturers' production disruption also affected inventory levels. This was partly offset by the increase in real estate lending, which showed resilience during the COVID-19 pandemic amidst the lower interest rate environment.

The commercial loan portfolio covers a wide range of industries, with no specific industry accounting for more than 13% of total loans and acceptances as at October 31, 2020 (12% as at October 31, 2019), demonstrating good diversification and risk management.

See Table 23 for additional information.

TABLE 23
### DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO AND INDUSTRY
As at or for the years ended October 31 (Thousands of Canadian dollars, except percentage amounts)

| | 2020 | | | | |
|---|---|---|---|---|---|
| | Gross amount of loans | Gross amount of impaired loans | Allowances against impaired loans (Stage 3) | Net impaired loans[1] | Provision for credit losses[2] |
| Personal | $ 4,120,875 | $ 36,105 | $ 17,212 | $ 18,893 | $ 26,813 |
| Residential mortgage | 16,341,890 | 65,846 | 3,605 | 62,241 | 12,942 |
| Commercial and other[3] | | | | | |
| Real estate, renting and lease | 4,359,457 | 15,638 | 2,515 | 13,123 | 10,372 |
| Construction[4] | 3,046,091 | 22,951 | 4,043 | 18,907 | 12,384 |
| Wholesale and retail | 1,868,170 | 57,896 | 24,215 | 33,681 | 13,654 |
| Transportation and communication | 1,634,105 | 9,539 | 2,801 | 6,738 | 12,198 |
| Other services and government | 597,405 | 17,889 | 6,906 | 10,983 | 5,904 |
| Financial services | 423,311 | 242 | 119 | 123 | 3,013 |
| Manufacturing | 269,347 | 16,612 | 2,281 | 14,332 | 5,140 |
| Public utilities | 246,379 | 21,114 | 7,695 | 13,419 | 8,214 |
| Transformation and natural resources | 115,587 | 74 | 4 | 70 | 943 |
| Agriculture | 112,128 | 8,798 | 5,038 | 3,760 | 4,596 |
| Other | 58,380 | 33 | 1 | 32 | 127 |
| | 12,730,360 | 170,786 | 55,618 | 115,168 | 76,545 |
| Total | $ 33,193,125 | $ 272,737 | $ 76,435 | $ 196,302 | $ 116,300 |

(1) Net impaired loans are calculated as gross impaired loans less allowances for credit losses against impaired loans.
(2) Recorded in the consolidated statement of income.
(3) Including customers' liabilities under acceptances.
(4) Including loans to developers of revenue-generating properties.

| | | | | | 2019 |
|---|---|---|---|---|---|
| | Gross amount of loans | Gross amount of impaired loans | Allowances against impaired loans (Stage 3) | Net impaired loans[1] | Provision for credit losses[2] |
| Personal | $ 4,660,524 | $ 17,642 | $ 4,732 | $ 12,910 | $ 17,780 |
| Residential mortgage | 16,039,680 | 59,236 | 1,050 | 58,186 | 3,284 |
| Commercial and other[3] | | | | | |
| Real estate, renting and lease | 4,152,704 | 6,516 | 1,300 | 5,216 | (555) |
| Construction[4] | 3,016,990 | 7,932 | 4,629 | 3,303 | 4,097 |
| Wholesale and retail | 2,567,938 | 50,609 | 21,067 | 29,542 | 16,019 |
| Transportation and communication | 1,065,610 | 5,002 | 2,831 | 2,171 | 2,683 |
| Other services and government | 664,377 | 18,228 | 3,841 | 14,387 | 478 |
| Financial services | 496,549 | 131 | 126 | 5 | 700 |
| Manufacturing | 304,668 | 984 | 815 | 169 | 136 |
| Public utilities | 287,152 | 8,005 | 301 | 7,704 | 341 |
| Transformation and natural resources | 138,367 | 90 | 25 | 65 | (334) |
| Agriculture | 88,619 | 508 | 62 | 446 | 332 |
| Other | 183,350 | 278 | 163 | 115 | (561) |
| | 12,966,324 | 98,283 | 35,160 | 63,123 | 23,336 |
| Total | $ 33,666,528 | $ 175,161 | $ 40,942 | $ 134,219 | $ 44,400 |

(1) Net impaired loans are calculated as gross impaired loans less allowances for credit losses against impaired loans.
(2) Recorded in the consolidated statement of income.
(3) Including customers' liabilities under acceptances.
(4) Including loans to developers of revenue-generating properties.

**COVID-19 impact on credit risk and measurement uncertainty of expected credit loss estimates**

To consider the evolving impact of the pandemic, as well as other changes to the Bank's environment, we updated our economic scenarios to assess collective provisions as at October 31, 2020. Our three scenarios, "base", "downside" and "upside", were probability weighted as part of our approach to determining the expected credit losses as at October 31, 2020 and are described below.

In the base scenario, the second wave of the COVID-19 pandemic leads authorities to implement localized and partial shutdowns this fall in North America. Smaller social gatherings and targeted restrictive health measures slow the pace of economic momentum in late 2020 after the robust initial reopening of last Summer. Overall, the targeted health measures succeed in tapering off the number of new daily cases over time. Once the virus transmission rate is brought under control by year-end, the recovery resumes in early 2021. The recovery is gradual as it takes more time for hardest hit industries to recover. The distribution of at least one effective and safe vaccine begins before the end of 2020. A larger number of vaccines become steadily available during 2021. Consumer, business and market confidence is restored as long-lasting social immunity takes place, leading to a more sustainable growth path in 2022. The yield curve slightly steepens over time as North American central banks signal their intention to maintaining their policy rates at 0.25% even when the recovery will be well underway.

In the downside scenario, the second wave of the COVID-19 pandemic turns out to be larger in terms of new cases per testing than the first wave. Quarantine fatigue contributes to the viral transmission. Governments are forced to implement larger than localized shutdowns involving key economic sectors and urban areas in late 2020. This second round of large confinement measures cripple consumer, business and market confidence. The larger amount of structural damage taking the form of business closures and permanent job losses contributes to the deterioration in economic and financial conditions in late 2020, creating a W-shaped scenario. Insolvencies rise, contributing to a decline in home prices in 2021. Once the transmission rate is brought down, the recovery slowly resumes in 2021 because of structural damage. Furthermore, the distribution of a safe and efficient vaccine does not begin before mid-2021, delaying social immunity. Central banks announce additional unconventional easing measures, pushing down the yield curve closer to zero.

In the upside scenario, the virus transmission rate drops rapidly as new flare-ups are very concentrated. Furthermore, a group of efficient and safe vaccines are approved before year-end and distributed rapidly in 2021, eliminating the spread of the virus. Social immunity boosts consumer and business confidence and fuels market risk appetite in early 2021. Households spend precautionary savings faster. The most exposed sectors to the COVID-19 pandemic are able to restore activities over a shorter period. Monetary policy of North American central banks stays accommodative, widening the spread between short- and long-term interest rates.

When possible, our ECL models were adapted to consider measures introduced by governments, central banks and regulators to promote liquidity and ease financial stress to individuals and businesses. To better assess loan losses, we also applied expert judgment given this unprecedented situation. The magnitude of the impact of COVID-19 on the Canadian and U.S. economies remains highly uncertain including assessments of the impact of government and/or regulatory responses to the outbreak. Therefore, it remains difficult to predict whether the increase in expected credit losses will result in significant write-offs and if the Bank will need to recognize additional increases in expected credit losses in subsequent periods.

## Provision for credit losses

The provision for credit losses increased by $71.9 million to $116.3 million for the year ended October 31, 2020 compared with $44.4 million for the year ended October 31, 2019. The increase in provision for credit losses in 2020 was mainly driven by increases in collective allowances on stage 1 and stage 2 loans to take into account the severe decrease in economic activities related to the COVID-19 pandemic as of the second quarter of 2020.

*Credit losses on personal loans* increased by $9.0 million for the year ended October 31, 2020 compared with the same period of 2019. This was mainly a result of the significant increase in credit risk due to the COVID-19 pandemic and its negative impact on collective allowances, partly offset by the impact of lower volumes.

*Credit losses on residential mortgage loans* increased by $9.7 million for the year ended October 31, 2020 compared with the same period of 2019, mainly due to the negative impact of the COVID-19 pandemic on collective allowances.

*Credit losses on commercial loans* increased by $53.2 million for the year ended October 31, 2020 compared with the year ended October 31, 2019. The increase was mainly due to the negative impact of the COVID-19 pandemic on collective allowances, as well as to higher losses on impaired loans.

The provision for credit losses expressed as a percentage of average loans and acceptances was 35 basis points for the year ended October 31, 2020 compared to 13 basis points for the year ended October 31, 2019.

Table 24 details the provision for credit losses from 2018 to 2020.

TABLE 24

### PROVISION FOR CREDIT LOSSES[1]

For the years ended October 31 (Thousands of Canadian dollars, except percentage amounts)

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| **Personal loans** | | | |
| Stage 1 and 2 | **$ (717)** | $ (4,561) | n/a |
| Stage 3 | **27,530** | 22,341 | n/a |
| | **26,813** | $ 17,780 | $ 21,157 |
| **Residential mortgage loans** | | | |
| Stage 1 and 2 | **6,678** | (430) | n/a |
| Stage 3 | **6,264** | 3,714 | n/a |
| | **12,942** | 3,284 | 3,363 |
| **Commercial loans** | | | |
| Stage 1 and 2 | **37,105** | 2,516 | n/a |
| Stage 3 | **39,440** | 20,820 | n/a |
| | **76,545** | 23,336 | 19,480 |
| Provision for credit losses | **$ 116,300** | $ 44,400 | $ 44,000 |
| As a % of average loans and acceptances | **0.35 %** | 0.13 % | 0.12 % |

(1) Provision for credit losses reflect the adoption of IFRS 9, *Financial Instruments* on November 1, 2018. The 2018 comparative information has not been restated.

## Impaired loans

The Bank's definition of impairment follows its definition of debtor default. Debtor default occurs in the context of one or both of the following events:

- The Bank considers the obligor unlikely to pay their credit obligations to the banking group in full, without recourse to actions such as realizing a security (if held);
- The obligor is more than 90 days past due on any credit obligation to the banking group. Overdrafts are considered past due once the client has breached the authorized limit or been advised of a limit lower than current outstanding.

Gross impaired loans amounted to $272.7 million as at October 31, 2020, up $97.6 million or 56% compared with October 31, 2019, mainly due to an increase of the commercial impaired loans. Allowances for loan losses against impaired loans increased by $35.5 million compared with October 31, 2019, mainly with regards to the commercial loan portfolio. Allowances for loan losses against other loans amounted to $97.1 million as at October 31, 2020, up $37.6 million compared with October 31, 2019, driven by the additional risks associated to the COVID-19 pandemic.

See Note 7 to the Consolidated Financial Statements for additional information.

TABLE 25

## IMPAIRED LOANS

As at October 31 (Thousands of Canadian dollars, except percentage amounts)

| | 2020 | 2019 |
|---|---|---|
| **Gross impaired loans** | | |
| Personal | $ 36,105 | $ 17,642 |
| Residential mortgages | 65,846 | 59,236 |
| Commercial[1] | 170,786 | 98,283 |
| | 272,737 | 175,161 |
| **Allowances for loan losses against impaired loans (Stage 3)** | (76,435) | (40,942) |
| **Net impaired loans** | $ 196,302 | $ 134,219 |
| **Impaired loans as a % of loans and acceptances** | | |
| Gross | 0.82 % | 0.52 % |
| Net | 0.59 % | 0.40 % |
| **Allowances for loan losses against other loans** | | |
| Stage 1 | $ (56,866) | $ (29,587) |
| Stage 2 | (40,221) | (29,928) |
| | $ (97,087) | $ (59,515) |

(1) Including customers' liabilities under acceptances.

### Payment relief programs

In response to COVID-19, we continue to work with our customers who may need flexibility in managing their loans. To that effect, we have been offering up to six months of payment deferral for residential mortgages and some personal loans. Payment relief was generally granted only to customers with good credit records. For commercial loans, customers' requests and deferral programs were mostly reviewed and approved on a case-by-case basis. These payment relief options allowed customers to temporarily stop making their regular payments, while interest continued to accrue on the outstanding balance.

Payment deferrals were not considered to automatically trigger a significant increase in credit risk or result in such loans being moved into stage 2 or stage 3 for the purposes of calculating expected credit losses. For loans with payment deferrals to retail customers, we performed a careful assessment to consider reasonable and supportable information in order to identify customers with higher susceptibility to long-term economic impacts which may indicate a higher probability of default. Exposures to these clients were moved to stage 2 and expected credit losses were adjusted accordingly. For commercial loans, as requests for relief were mainly reviewed and approved on a case-by-case basis, staging and expected credit losses calculation generally followed our normal process. Additional reviews were performed for certain commercial loan portfolios to identify potential increases in the probability of defaults and expected credit losses were also adjusted accordingly.

The following table shows the value of loans subject to these deferrals still outstanding as at October 31, 2020. Although the remaining exposure as at October 31, 2020 is now relatively low, we understand that a portion of the improvement is related to the end of the initial 6-month deferral period for many clients. We are monitoring these accounts and remain confident that, based on our current assessment of the COVID-19 situation, underlying losses should remain manageable.

TABLE 26

## LOANS SUBJECT TO PAYMENT RELIEF PROGRAMS

(Thousands of Canadian dollars, except percentage amounts)

| | | | | 2020 |
|---|---|---|---|---|
| | As at April, 30 | | As at October, 31 | |
| | Loan value | As a % of loan portfolio | Loan value[1] | As a % of loan portfolio |
| Personal loans | $ 6,176 | 0.1 % | $ 865 | — % |
| Residential mortgage loans | 3,060,645 | 19.3 % | 199,699 | 1.2 % |
| Commercial loans | 1,373,800 | 10.5 % | 19,160 | 0.2 % |
| | $ 4,440,621 | 13.3 % | $ 219,724 | 0.7 % |

(1) Including personal, residential mortgage and commercial loans where a second three-month deferral was granted for $0.6 million, $143.4 million and $17.5 million, respectively as at October 31, 2020.

Deferred payments on these loans as at October 31, 2020 amounted to $6.5 million, mostly for residential mortgages, with very limited impact on our overall liquidity position.

### Geographic distribution of loans

The Bank operates across Canada and in the U.S. As at October 31, 2020, the geographic distribution of total loans was as follows: 8% in British Columbia and Territories, 9% in Alberta and the Prairies, 33% in Ontario, 43% in Quebec, 2% in the Atlantic provinces and 5% in the United States.

Tables 27 and 28 below present the geographic distribution of gross loans and impaired loans. The evolution of the geographic distribution in 2020 compared with 2019 is consistent with our strategy to diversify our operations.

TABLE 27

**GEOGRAPHIC DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO**

As at October 31 (Thousands of Canadian dollars, except percentage amounts)

| | | | | | **2020** |
|---|---|---|---|---|---|
| | **Personal loans** | **Residential mortgage loans** | **Commercial loans and other[1]** | **Gross amount of loans** | **Gross amount of loans (in %)** |
| British Columbia and Territories | **$ 551,589** | **$ 1,471,252** | **$ 539,879** | **$ 2,562,720** | **7.7 %** |
| Alberta and Prairies | **364,258** | **2,031,620** | **480,270** | **2,876,148** | **8.7** |
| Ontario | **1,478,865** | **5,897,776** | **3,694,468** | **11,071,109** | **33.4** |
| Quebec | **1,588,254** | **6,497,427** | **6,389,626** | **14,475,307** | **43.6** |
| Atlantic provinces | **137,909** | **443,815** | **42,937** | **624,661** | **1.9** |
| United States | **—** | **—** | **1,583,180** | **1,583,180** | **4.8** |
| | **$ 4,120,875** | **$ 16,341,890** | **$ 12,730,360** | **$ 33,193,125** | **100.0 %** |

| | | | | | 2019 |
|---|---|---|---|---|---|
| | Personal loans | Residential mortgage loans | Commercial loans and other[1] | Gross amount of loans | Gross amount of loans (in %) |
| British Columbia and Territories | $ 578,300 | $ 1,173,832 | $ 589,083 | $ 2,341,215 | 7.0 % |
| Alberta and Prairies | 415,865 | 1,519,949 | 534,677 | 2,470,491 | 7.3 |
| Ontario | 1,647,255 | 5,709,963 | 3,463,479 | 10,820,697 | 32.1 |
| Quebec | 1,852,770 | 7,287,233 | 6,111,064 | 15,251,067 | 45.3 |
| Atlantic provinces | 166,334 | 348,703 | 52,490 | 567,527 | 1.7 |
| United States | — | — | 2,215,531 | 2,215,531 | 6.6 |
| | $ 4,660,524 | $ 16,039,680 | $ 12,966,324 | $ 33,666,528 | 100.0 % |

(1) Including customers' liabilities under acceptances.

TABLE 28

**GEOGRAPHIC DISTRIBUTION OF IMPAIRED LOANS BY CREDIT PORTFOLIO**

As at October 31 (Thousands of Canadian dollars, except percentage amounts)

| | | | | | **2020** |
|---|---|---|---|---|---|
| | **Personal loans** | **Residential mortgage loans** | **Commercial loans and other[1]** | **Gross amount of impaired loans** | **Gross amount of impaired loans (in %)** |
| British Columbia and Territories | **$ 3,395** | **$ 1,649** | **$ 14,662** | **$ 19,706** | **7.2 %** |
| Alberta and Prairies | **1,821** | **8,092** | **7,547** | **17,460** | **6.4** |
| Ontario | **10,491** | **10,440** | **13,206** | **34,137** | **12.5** |
| Quebec | **19,163** | **43,987** | **117,635** | **180,785** | **66.3** |
| Atlantic provinces | **1,236** | **1,678** | **—** | **2,914** | **1.1** |
| United States | **—** | **—** | **17,736** | **17,736** | **6.5** |
| | **$ 36,105** | **$ 65,846** | **$ 170,786** | **$ 272,737** | **100.0 %** |

(1) Including customers' liabilities under acceptances.

| | | | | | 2019 |
|---|---|---|---|---|---|
| | Personal loans | Residential mortgage loans | Commercial loans and other(1) | Gross amount of impaired loans | Gross amount of impaired loans (in %) |
| British Columbia and Territories | $ 498 | $ 2,366 | $ 8 | $ 2,872 | 1.7 % |
| Alberta and Prairies | 703 | 9,130 | 10 | 9,843 | 5.6 |
| Ontario | 4,454 | 13,892 | 12,852 | 31,198 | 17.8 |
| Quebec | 11,406 | 31,255 | 69,244 | 111,905 | 63.9 |
| Atlantic provinces | 581 | 2,593 | — | 3,174 | 1.8 |
| United States | — | — | 16,169 | 16,169 | 9.2 |
| | $ 17,642 | $ 59,236 | $ 98,283 | $ 175,161 | 100.0 % |

(1) Including customers' liabilities under acceptances.

**Insurance and guarantees held in respect of loan portfolios**

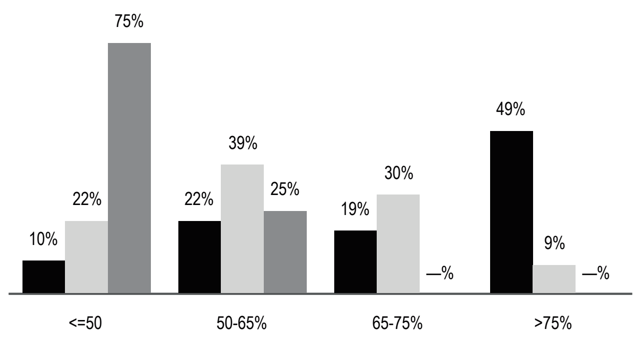
A significant proportion of the Bank's residential mortgage loan portfolio is insured by the CMHC, or by Sagen (formerly Genworth Canada) and Canada Guaranty Mortgage Insurance Company (the Mortgage Insurers). In addition, the Bank's loan portfolios are to a large extent, secured by assets pledged as collateral by borrowers or, for finance lease receivables, directly owned by the Bank.

Mortgage Insurers offer mortgage loan insurance programs which reduce the overall credit risk associated with the residential mortgage loan portfolio. The Bank also insures pools of mortgage loans through a specific CMHC insurance program. Moreover, by maintaining insured residential mortgage loans, the Bank retains its capacity to engage in securitization operations to finance its activities at optimal cost and manage its cash resources. By the end of fiscal 2020, 57% of residential mortgage loans secured by one- to four-unit dwellings were insured, compared with 49% as at October 31, 2019. The Bank also holds guarantees in respect of the real estate property for the other conventional mortgage loans, including HELOCs. In accordance with legal requirements, the non-amortizing HELOC component of a residential mortgage is limited to a maximum authorized loan-to-value ratio of 65%. Additional mortgage credit (beyond the loan-to-value ratio limit of 65% for HELOCs) can be extended to a borrower. However, the loan portion over the 65% loan-to-value ratio threshold must be amortized. The total loan value of the Bank's conventional mortgage loans never exceeds 80% of the initially estimated value of the property, in accordance with legal requirements.

The following graphs provide further information on the quality of the Bank's residential mortgage loan portfolio.

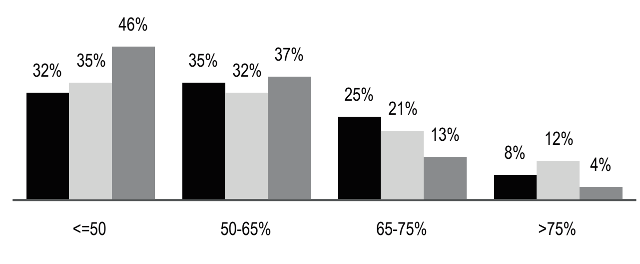
**LOAN-TO-VALUE DISTRIBUTION**

As at October 31, 2020



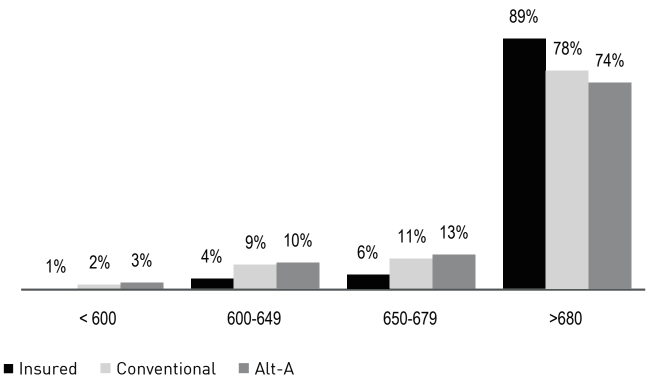

**GEOGRAPHIC LOAN-TO-VALUE DISTRIBUTION (UNINSURED)(1)**

As at October 31, 2020

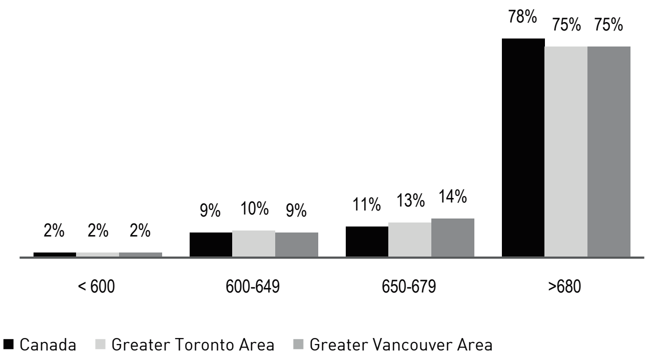



(1) Uninsured includes Conventional and Alt-A

**BEACON DISTRIBUTION**
As at October 31, 2020




**GEOGRAPHIC BEACON DISTRIBUTION (UNINSURED)[1]**
As at October 31, 2020




(1) Uninsured includes Conventional and Alt-A

As at October 31, 2020, the estimated average loan-to-value ratio was 57% for insured residential mortgage loans and 43% for uninsured residential mortgage loans, including the authorized limit for related HELOCs.

In accordance with the Bank's credit risk management policies, the residential mortgage and HELOC portfolios are regularly reviewed to ensure that the level of risk associated with these portfolios remains in line with the Bank's risk appetite and its strategic objectives. As part of this oversight, the portfolios are stressed to reflect the effects of a potential economic downturn creating a decline in property values. Due to the large portion of insured loans and the relatively low loan-to-value ratio of uninsured mortgage loans, the Bank believes that loan losses under such a scenario would remain largely manageable.

Commercial loans are generally secured by a wide range of assets such as real estate, equipment, receivables and inventories, as well as, in certain cases, additional liens on real estate and other fixed assets. Real estate financing loans are secured by specific assets, such as five and more unit dwellings, smaller retail multi-unit dwellings, commercial properties, office buildings, shopping centers and other properties. In general, the value of these loans does not exceed 60% to 75% of the initially estimated value of the property, depending on the nature of the loan.

The Bank's personal loan portfolio consists mainly of investment loans. The loan underwriting process for those specifically takes into consideration client's credit risk. Authorizations are based on clients' loan servicing ability and overall financial strength, mainly based on credit scoring. In addition, loans are collateralized by a comprehensive list of eligible mutual and segregated funds. Stricter credit criteria must be met as loan-to-value ratios increase. For loans where disbursements are significant, additional personal income and net worth information are usually required.

Loan underwriting for HELOCs allows for the assessment of client credit risk. In addition, real estate assets and other assets collateralize these loans. Finally, 9% of the Bank's personal loan portfolio as at October 31, 2020 consisted of student loans and loans granted under the Immigrant Investor Program, which are guaranteed by the federal or provincial government.

#### Guarantees held on other financial instruments

When entering activities such as reverse repurchase agreements and derivative transactions, the Bank requires counterparties to pledge collateral that will protect the Bank from losses in the event of a counterparty's default. Collateral transactions are conducted under terms that are usual and customary in standard trading activities. The following are examples of general terms and conditions on collateral assets that the Bank may sell, pledge or repledge:

- The risks and rewards of the pledged assets reside with the pledger;
- The pledged asset is returned to the pledger when the necessary conditions have been satisfied;
- The right of the pledgee to sell or repledge the asset is dependent on the specific agreement under which the collateral is pledged; and
- If there is no default, the pledgee must return the comparable asset to the pledger upon satisfaction of the obligation.

As at October 31, 2020, the approximate market value of collateral pledged to the Bank related to assets purchased under reverse repurchase agreements was $5.9 billion ($6.1 billion as at October 31, 2019).

As at October 31, 2020, the approximate market value of collateral pledged to the Bank related to derivatives was $0.1 billion ($0.1 billion as at October 31, 2019).

## MARKET RISK MANAGEMENT

Market risk is the financial loss that the Bank could incur due to unfavourable fluctuations in the value of financial instruments as a result of changes in the underlying factors used to measure them, such as interest rates, currency exchange rates or equity prices. This risk is inherent to the Bank's financing, investment, trading and asset and liability management (ALM) activities.

*Interest rate risk* is created by the potential adverse impact of interest rate movements. The section covering ALM activities describes the global management of interest rate risk. Structural interest rate risk arises mainly from the differences in maturity dates or re-pricing dates of balance sheet and off-balance sheet items, as well as from the options embedded in certain banking products, such as loan repayment and deposit redemption clauses.

*Foreign exchange risk* is the risk of losses from adverse fluctuations in currency exchange rates. Assets and liabilities that are denominated in foreign currencies have foreign exchange risk.

*Equity price risk* represents financial losses that the Bank may incur subsequent to adverse fluctuations in equity prices or stock market instability in general, as well as from options embedded in certain banking products, such as equity-linked GICs.

### Market risk governance: policies and standards

The primary objective of effective market risk management is to measure significant market risks and ensure that these risks stay within the Bank's accepted risk tolerance thresholds. The Bank has thus adopted policies and limits to oversee exposure to market risks arising from its trading, investment and ALM activities and related management practices. The policies and limits establish the Bank's management practices pertaining to various risks associated with its capital markets and treasury activities. These policies and limits are approved by the Executive Committee and the Risk Management Committee of the Board at least annually, to ensure their alignment to principles, objectives and management strategies.

Detailed risk level and limit monitoring reports are produced regularly and are presented as follows:

- Daily for investment portfolios, to Corporate Risk Management and portfolio managers;
- Weekly for structural interest rate risk, to Corporate Risk Management, Corporate Treasury managers and Executive Committee;
- Monthly for structural foreign-exchange risk, to Corporate Risk Management, Corporate Treasury managers and Executive Committee; and,
- Quarterly, to the Executive Committee and to the Risk Management Committee of the Board.

### Market risk assessment and management

Market risk assessment is based on the key risk drivers in the business and can include, per the complexity and nature of its activities:

- Limits on notional amount;
- Expected shortfall; and
- Stress testing and other sensitivity measures.

*Limits on notional amount*

The Bank sets limits that are consistent with its business plan and its risk appetite for market risk. In setting limits, the Bank considers market volatility, market liquidity, organizational experience and business strategies. Limits are set at the aggregate Bank level and then are apportioned to the different lines of business and at the portfolio level and are monitored daily.

*Expected shortfall*

As of 2019, the Bank changed its reference market risk measure from the Value at Risk (VaR) to the expected shortfall. Introduced under the Fundamental Review of the Trading Book (FRTB) and its implementation expected in 2023, the expected shortfall, while statistically equivalent to a 99% VaR under a normal distribution, puts more emphasis on tail risk than the VaR measure. Expected shortfall represents the average trading loss beyond a 97.5% confidence interval. For an historical expected shortfall with 300 scenarios, this represents the average of the seven worst days of trading for the Bank. Expected shortfall is calculated daily for all financial market activities. These calculations are conducted for each specific business unit and each risk factor, as well as for the entire trading portfolio. The theoretical change in profits and losses is generated using the daily price movements, and on the assumption, that there is no change in the composition of the trading portfolio.

*Stress testing and other sensitivity measures*

Parallel to expected shortfall calculations, the impact of stress tests on profits and losses is assessed for the trading and investment portfolios and the ensuing results are used to assess the impact of exceptional but plausible market situations. Stress tests constitute a complementary risk measure to expected shortfall and are designed to provide an estimate of the worst losses the Bank could incur under multiple scenarios. The Bank's stress testing program combines historical and hypothetical scenarios to simulate the impact of significant changes in risk factors on the portfolios' market value. The Bank also produces daily sensitivity measurements, including measurements of volatility and parallel yield curve shifts on specific business units and the Capital Markets group.

### Trading activities

Trading activities are aligned with the needs of the Bank and its customers. The market risk associated with trading activities ensues from activities for which the Bank acts as the principal or agent for its customers. The graph below presents the daily total expected shortfall of the trading portfolio for the 2020 fiscal year.

**DAILY TRADING EXPECTED SHORTFALL**

For the year ended October 31, 2020 (in thousands of Canadian dollars)


### Asset and liability management activities

The purpose of ALM activities is to control structural interest rate risk, which corresponds to the potential negative impact of interest rate movements on the Bank's net interest income and economic value of its capital.

This risk is mainly attributable to differences in maturity dates or re-pricing dates of balance sheet and off-balance sheet items along with the options embedded in certain banking products, notably clauses on prepayment, deposit redemption and mortgage loan commitments.

Structural interest rate risk management requires monitoring of four distinct portfolio groups:

- Banking activities, which are affected by customer choices, product availability and term-dependent pricing strategies;
- Investment activities, comprising marketable securities and institutional funding;
- Securities trading activities, which are marked-to-market daily in line with rate movements; and
- A hedging portfolio that helps the Bank maintain overall interest rate risk within strict internal limits.

Dynamic management of structural interest rate risk is intended to maximize the Bank's profitability while preserving the economic value of common shareholders' equity.

To attain this objective, various treasury and derivative instruments, mainly interest rate swaps, are used to modify the interest rate characteristics of the instruments underlying the Bank's balance sheet and to manage the risk inherent in options embedded in loan and deposit products.

Structural interest rate risk is globally managed by the Bank's Corporate Treasury. The Asset-Liability Management Committee and the Executive Committee provide ongoing governance of structural risk measurement and management through risk policies, limits, operating standards and other controls in accordance with the Treasury and Capital Market Risks Policy. This policy, which is approved by the Risk Management Committee of the Board, defines limits relative to the measurement of the economic value of shareholders' equity and net interest income risks.

Risk limits are based on measures calculated by simulating the impact of immediate and sustained parallel movements of 100 bps in rates for all maturities. Net interest income risk measures the negative impact on net interest income from interest rate movements over the next 12 months. Economic value of shareholders' equity risk measures the net negative impact on the present value of balance sheet and off-balance sheet assets and liabilities.

Interest rate risk exposures are reviewed periodically by the Asset-Liability Management Committee, which is responsible for monitoring the Bank's positioning regarding anticipated interest rate movements and recommending hedging of all undesirable interest rate risk. In addition, risk monitoring reports are presented periodically to the Corporate Risk Committee and the Risk Management Committee of the Board.

To ensure sound management of structural interest rate risk, a repricing gap report is produced weekly. Simulation analysis are also performed weekly to assess the impact of various interest rate variation scenarios on net interest income and on the economic value of the Bank. One of the simulation exercises consists of subjecting the Bank's balance sheet to a sudden parallel and sustained 1% increase and decrease in interest rates, as shown in Table 30. The sensitivities shown above represent our assessment of the change to a hypothetical base case NII, assuming a static balance sheet and no management actions. They incorporate the effect of various assumptions, including the prepayment of mortgages.

The Bank aims to limit its overall exposure to rapid shifts in interest rates. However, the timing of Bank of Canada overnight rate changes and ensuing variations in the prime rate and short-term bankers' acceptances (BA) rates can temporarily impact margins. As such, fluctuations in net interest income may occur, but within controlled tolerance margins.

*Current interest rate environment*

Central banks have reduced interest rates in most financial markets due to the adverse impact of the Covid-19 pandemic, which in turn increased the likelihood of negative interest rates. This raises several risks and concerns, such as the readiness of our systems and processes to accommodate zero or negative rates, the resulting impacts on customers, regulatory constraints and the financial implications given the significant impact that prolonged low interest rates are likely to have on net interest income. As we have floored certain deposit rates at zero and as financial instruments are repriced at lower rates, interest margins are expected to compress, which may affect profitability. These factors may challenge the long-term profitability of the banking sector and will be considered as part of our strategic planning.

TABLE 29

**SENSITIVITY ANALYSIS OF THE STRUCTURAL INTEREST RATE RISK**

As at October 31 (Thousands of Canadian dollars)

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Effect on net interest income[1]** | **Effect on the economic value of common shareholders' equity[2]** | Effect on net interest income[1] | Effect on the economic value of common shareholders' equity[2] |
| Change in interest rates | | | | |
| Increase of 100 basis points | **$ 23,476** | **$ (36,690)** | $ 3,877 | $ (49,524) |
| Decrease of 100 basis points | **$ (9,610)** | **$ 29,627** | $ (9,154) | $ 43,627 |

(1) Over the next 12 months.

(2) Net of income taxes.

## Foreign exchange risk

*Structural foreign exchange risk*

Foreign exchange risk is monitored using limits and other sensitivity analysis for trading operations as described above. The Bank is exposed to foreign exchange risk mainly through its investment in a U.S. foreign operation. These exposures can have an impact on earnings, shareholders' equity and capital ratios. The Bank uses derivative financial instruments to minimize these impacts. When the Canadian dollar fluctuates against the U.S. dollars unrealized translation gains or losses on the net investment in foreign operations, net of related hedges, impact accumulated other comprehensive income in shareholders' equity. In addition, the Canadian dollar equivalent of risk-weighted assets denominated in U.S. dollars and capital deductions is impacted.

The Bank is also exposed to foreign exchange risk through foreign exchange positions related to commercial activities in its Canadian operations, as well as through positions held to support the supply of products and services in currencies other than the Canadian dollar. In the normal course of business, the Bank also uses foreign exchange derivative financial instruments to hedge its exposure to structural foreign exchange risk.

For non-trading activities, as at October 31, 2020, assets and liabilities carried in Canadian entities and denominated in U.S. dollars amounted to $637.1 million ($769.6 million as at October 31, 2019) and $317.2 million ($415.8 million as at October 31, 2019) respectively. As at October 31, 2020, regarding these positions, the effect of a sudden 5% change in foreign exchange rates would have no significant impact on net income and shareholders' equity.

Currencies other than U.S. dollars are generally bought and sold solely to meet specific customer needs. Thus, the Bank has very limited exposure to these currencies. Assets and deposit liabilities in other foreign currencies were primarily denominated in British pounds and Euros and amounted to $22.3 million ($9.4 million as at October 31, 2019) and $19.4 million ($9.0 million as at October 31, 2019) respectively as at October 31, 2020.

*Trading activities*

The Bank is also exposed to foreign exchange risk as a result of trading activities as discussed above, including with foreign exchange derivative financial instruments.

## Equity price risk

The Bank's equity positions consist primarily of Canadian and U.S. publicly traded securities and, thus, portfolio sensitivity generally correlates to Canadian and U.S. stock market performance. A portion of the Bank's equity positions is used to hedge index-linked deposits. In addition, the Bank has equity exposures through its pension plans. As at October 31, 2020, a fluctuation in the stock markets of 10% would have had a $17.4 million impact on the Bank's shareholders' equity ($18.2 million as at October 31, 2019).

## LIQUIDITY AND FUNDING RISK MANAGEMENT

Liquidity and funding risk is the possibility that the Bank may not be able to gather sufficient cash resources when required and on reasonable conditions, to meet its financial obligations. Financial obligations include obligations to depositors and suppliers, as well as lending commitments, investments and posting collateral requirements.

The Bank's overall liquidity risk is managed by Corporate Treasury with oversight by Corporate Risk Management and by the Asset-Liability Management Committee, and ultimately by the Risk Management Committee of the Board in accordance with the policies governing funding and liquidity and collateral management. The main purpose of these policies is to ensure that the Bank has sufficient liquidity resources to meet its current and future financial obligations, under both normal and stressed conditions.

The Bank's balance sheet is well diversified, both in terms of assets and funding sources. To maintain sound diversification, funding sources are subject to concentration limits developed and monitored by Corporate Risk Management. Those limits are established, taking into consideration, among other things, the volatility of the funding sources. Of note, the Bank's retail and commercial deposits are largely composed of term deposits, which significantly improve their quality regarding liquidity risk.

The stability of the funding sources is also taken into consideration when measuring liquidity requirements under the Bank's methodology. Run-off factors used in the liquidity stress tests are derived from the historical stability of the various funding sources. The monitoring process is conducted daily by Corporate Risk Management and is overseen by the Asset-Liability Management Committee and the Risk Committee of the Board of Directors.

As a complement to stress tests, the Bank has developed internal models to forecast potential outflows on non-maturing deposits, which are used in liquidity gap reports and funding plans. Behavioural and modeling assumptions are reviewed and tested at least on an annual basis by Corporate Treasury and approved by Asset-Liability Management Committee.

The Bank also conducts additional liquidity stress-test scenarios monthly. Outflows on non-maturing deposits and redeemable term deposits are stressed in different scenarios and over different time horizons to provide management with various views on the Bank's liquidity. Results are reported to the Asset-Liability Management Committee monthly.

The Bank's liquid assets held to satisfy liquidity requirements must be high quality securities that the Bank believes can be monetized quickly in stress conditions with minimum loss in market value. More than 95% of the Bank's high-quality liquid assets are invested in Level 1 assets as at October 31, 2020. These assets are Central Bank eligible and can be easily sold or given as collateral during a time of stress. A liquidity contingency plan is prepared and reviewed on a regular basis. It guides the Bank's actions and responses to potential liquidity crises.

The Bank also manages its liquidity to comply with the regulatory liquidity metrics in the OSFI domestic Liquidity Adequacy Requirements (LAR) Guideline. These regulatory metrics include the Liquidity Coverage Ratio (LCR), drawn on the BCBS international Basel III liquidity framework, and the OSFI-designed Net Cumulative Cash Flow (NCCF) supervisory tool. The LCR requires that banks maintain sufficient high-quality liquid assets to meet net short-term financial obligations over a thirty-day period in an acute stress scenario. The Bank remained compliant with the LAR Guideline throughout the year ended October 31, 2020.

### Regulatory developments concerning liquidity

On December 5, 2019, OSFI released the final version of Guideline B-6: Liquidity Principles, which sets out OSFI's expectations for how deposit-taking institutions (DTIs) should manage liquidity risk. The final guideline provides DTIs with further clarity on how to manage liquidity risk and ensures that OSFI's expectations are current and appropriate for the scale and complexity of these institutions. The final guideline took effect January 1, 2020 and had limited consequences on how the Bank manages its liquidity.

On January 17, 2020, OSFI issued the consultative document: "Advancing Proportionality: Tailoring Capital and Liquidity Requirements for Small and Medium-Sized Deposit-Taking-Institutions", as also discussed in the Capital Management section above. This consultative document outlines proposed changes to the regulatory liquidity framework, including a proposal to apply the Net Stable Funding Ratio (NSFR) liquidity requirement to certain non-Domestic Systemically Important Banks (D-SIBs), in order to promote longer-term funding resiliency.

On March 27, 2020, as mentioned in the Capital Management section above, OSFI delayed the timing for the implementation of the Small and Medium-Sized Banks (SMSB) Capital and Liquidity framework to the beginning of the first quarter of 2023. Similarly, OSFI will also delay the consultation work on Pillar 2 and Pillar 3 capital and liquidity requirements for SMSBs.

Also, on March 27, OSFI introduced several measures to afford financial institutions further flexibility in addressing the COVID-19 pandemic, including a temporary relief which permitted to exclude bankers' acceptances (BAs) that were sold to the Bank of Canada under the BA Purchase Facility from the calculation of the outflow of the LCR. Finally, OSFI reiterated that institutions may use their stock of unencumbered high-quality liquid assets (HQLA) they hold within the LCR as a defense both against the potential onset of liquidity stress and during a period of liquidity stress (such as a liquidity stress resulting from COVID-19). LCR falling below 100% is permitted under such circumstances, as maintaining the LCR at 100% could produce undue negative effects on the institution and other market participants.

### Liquid assets

The Bank's liquid assets consist of cash and non-interest-bearing deposits with banks, interest-bearing deposits with banks, securities, as well as securities purchased under reverse repurchase agreements. They are mainly composed of high-quality liquid direct investments in or transactions secured by marketable securities issued or guaranteed by the Canadian government, provinces or municipal corporations. As at October 31, 2020, these assets totalled $9.6 billion, a decrease of $0.4 billion compared to the level held on October 31, 2019.

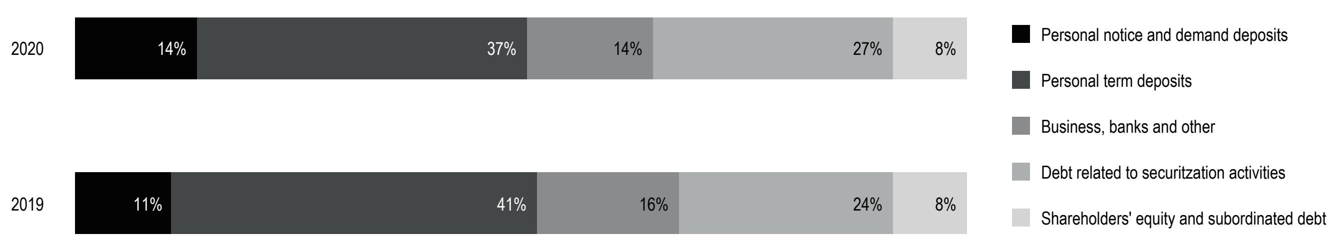
The level of liquidity reflects deposit gathering from multiple sources and funding from securitization activities used to finance the Bank's expected loan growth. Overall, the Bank continues to prudently manage the level of liquid assets and to hold sufficient cash resources from various sources to meet its current and future financial obligations, under both normal and stressed conditions. These liquid assets provide the Bank with flexibility to manage its loan and deposit portfolio maturities and commitments and to meet other current operating needs. Management of the liquid assets, both in terms of optimizing levels and mix, contributes significantly to the Bank's results.

### Funding

The Bank's lending operations primarily rely on funding from retail deposits, a particularly stable source. The Bank's funding strategy relies on both well-established retail branches in Quebec and an efficient pan-Canadian network of advisors and brokers. This funding strategy is well aligned with regulatory requirements in the LAR Guideline, which recognizes that personal deposits are the most stable funding source.

The Bank can also access the institutional deposit market as an alternative source of funding to optimize the overall funding sources. Furthermore, the Bank uses securitization of residential mortgage loans through the CMHC programs and, to a lesser extent, securitization of residential mortgage, personal loans and finance lease receivables through other structured entities. These liquidity sources are cost effective and provide added flexibility to meet specific increases in funding needs.

**FUNDING SOURCES**
As at October 31 (as a percentage)




### Personal deposits

Personal deposits include notice, demand and term deposits sourced through the Bank's Quebec Retail Network, the Advisors and Brokers channel and through the Digital Direct to Customers offering. A significant proportion of these deposits are insured by the Canada Deposit Insurance Corporation, up to $100,000 per client, per regulated deposit-taking financial institution, which contributes to their stability. Deposits sourced through the Advisors and Brokers channel are mainly drawn from brokers affiliated with all major Canadian banks, as well as by a well-established extended network of financial advisors. As well, 72% of personal deposits are term deposits as at October 31, 2020.

Personal deposits decreased by 5% to $18.8 billion as at October 31, 2020, compared with $19.7 billion as at October 31, 2019 as shown in Table 30. The decrease resulted mainly from the lower term deposits sourced through intermediaries managed down to meet our funding needs, partly offset by higher volumes of demand deposits generated through the various direct to customer distribution channels of the Bank. In the first quarter of 2020, we launched our LBC Digital deposit offering. These deposits, amounting to $0.6 billion as at October 31, 2020, contribute to our well-diversified funding and provide the opportunity to develop new client relationships and cross-selling activities. In 2020, personal demand deposits sourced through our Quebec Retail Network increased by $0.3 billion, while other demand deposits from intermediaries increased by $0.4 billion.

Over the recent years, we have optimized the size of the Bank's Quebec Retail Network. We monitor closely the impact of these actions, which remain in line with expectations. Furthermore, we are maintaining our plan to focus on delivering financial advice through our retail branches, and on migrating customers to electronic and web-based platforms, thus progressing toward our objective to further digitize services. We remain confident that these measures will provide significant opportunities to grow our deposit base as we dedicate our resources to better meet our clients' needs.

### Business, banks and other deposits

Deposits from businesses, banks and other decreased by $0.8 billion since October 31, 2019 to $5.1 billion as at October 31, 2020. These deposits contribute to the diversification of the Bank's funding sources and to the active management of its liquidity levels. They are sourced from an institutional clientele and the Bank's network of account managers serving commercial clients.

TABLE 30
## DEPOSITS
As at October 31 (Thousands of Canadian dollars, except percentage amounts)

| | 2020 | | 2019 | |
|---|---|---|---|---|
| Personal | | | | |
| Notice and demand | | | | |
| Quebec Retail Network | $ 2,466,488 | 10.3 % | $ 2,172,565 | 8.5 % |
| Advisors and Brokers | 2,271,453 | 9.5 | 1,856,070 | 7.2 |
| Digital Direct to Customers | 504,559 | 2.1 | 104,307 | 0.4 |
| | 5,242,500 | 21.9 | 4,132,942 | 16.1 |
| Term | | | | |
| Quebec Retail Network | 4,692,705 | 19.6 | 4,836,235 | 18.9 |
| Advisors and Brokers | 8,795,812 | 36.8 | 10,778,074 | 42.0 |
| Digital Direct to Customers | 65,133 | 0.3 | 9 | — |
| | 13,553,650 | 56.7 | 15,614,318 | 60.9 |
| | 18,796,150 | 78.6 | 19,747,260 | 77.0 |
| Business, banks and other | | | | |
| Notice and demand | 1,642,176 | 6.9 | 1,619,004 | 6.3 |
| Term | | | | |
| Institutional | 2,484,482 | 10.3 | 3,134,903 | 12.2 |
| Other | 997,395 | 4.2 | 1,151,437 | 4.5 |
| | 3,481,877 | 14.5 | 4,286,340 | 16.7 |
| | 5,124,053 | 21.4 | 5,905,344 | 23.0 |
| Deposits | $ 23,920,203 | 100.0 % | $ 25,652,604 | 100.0 % |

### Credit ratings

Personal deposits, collected through the Quebec Retail Network as well as the Advisors and Brokers channel, constitute the most important source of financing for the Bank. The Bank also relies on the wholesale markets to obtain financing through securitization and unsecured financing. The Bank's capacity to obtain such financing, especially wholesale funding, is tied to the credit ratings set by rating agencies such as DBRS and Standard & Poor's Rating Services (S&P). Revisions of the Bank's credit ratings may therefore influence financing operations, as well as other collateral obligations.

Changes to credit ratings could also impact the Bank involvement with other operational banking arrangements. The Bank regularly monitors the impact of a hypothetical downgrade of its credit rating on the collateral requirements. As at October 31, 2020, additional collateral that would be required in the event of a one-to-three-notch rating downgrade was not significant.

On June 10, 2020, Standard and Poor's (S&P) affirmed our BBB long-term and A-2 short-term issuer credit ratings, while maintaining the negative outlook[(1)]. On June 4, 2020, DBRS confirmed our A (low) rating on deposits and senior debt and R-1 (low) rating on short-term instruments. In addition, DBRS revised its trends on long-term ratings to negative from stable [(2)].

Table 31 presents the Bank's credit ratings as established by the rating agencies.

TABLE 31
## CREDIT RATINGS
As at November 27, 2020

| | DBRS | S&P |
|---|---|---|
| Deposits and senior debt | A (low) | BBB |
| Short-term instruments | R-1 (low) | A-2 |
| Non-Viability Contingent Capital (NVCC) Subordinated debt | BBB (low) | BB+ |
| NVCC Preferred shares | Pfd-3 | BB- |

(1) The S&P rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future action. The S&P rating outlooks have the following meanings: "Positive" means that a rating may be raised; "Negative" means that a rating may be lowered; "Stable" means that a rating is not likely to change; "Developing" means a rating may be raised or lowered.

(2) Each DBRS rating category is appended with one of three rating trends —"Positive," "Stable," "Negative"— in addition to "Under Review." The rating trend helps to give investors an understanding of DBRS's opinion regarding the outlook for the rating in question. However, investors must not assume that a positive or negative trend necessarily indicates that a rating change is imminent.

### Contractual obligations

In the normal course of its activities, the Bank enters into various types of contractual agreements. Its main obligations result from the issuance of debt instruments, including deposits written with individuals, businesses and other institutions. This financing, combined with the issuance of capital, is used primarily to finance loan and investment operations. Note 30 to the Consolidated Financial Statements provides further information on other contractual obligations.

The Bank is also exposed to liquidity risk when it contracts credit commitments. As at October 31, 2020, these commitments amounted to approximately $5.9 billion ($5.3 billion as at October 31, 2019), excluding credit facilities unconditionally revocable at the Bank's option.

### Contractual maturities of assets and liabilities

The following tables provide remaining contractual maturity profiles of assets and liabilities at their carrying value (e.g., amortized cost or fair value) as at October 31, 2020 and 2019. Details of contractual maturities and commitments to extend funds are a source of information for the management of liquidity risk and does not represent how the Bank manages its interest rate or its liquidity risk and funding needs. These details form a basis for assessing a behavioural balance sheet with effective maturities to calculate liquidity risk measures. For further details, refer to the "Risk measurement" section.

TABLE 32

**CONTRACTUAL MATURITIES OF ASSETS AND LIABILITIES**

As at October 31 (Thousands of Canadian dollars)

| | Term | | | | | | | | 2020 |
|---|---|---|---|---|---|---|---|---|---|
| | 0 to 3 months | Over 3 months to 6 months | Over 6 months to 9 months | Over 9 months to 12 months | Over 1 year to 2 years | Over 2 years to 5 years | Over 5 years | No specific maturity | Total |
| **Assets** | | | | | | | | | |
| **Cash and non-interest-bearing deposits with banks** | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 69,661 | $ 69,661 |
| **Interest-bearing deposits with banks** | 482,960 | — | — | 25,000 | — | — | — | 95,221 | 603,181 |
| **Securities** | 652,671 | 268,379 | 109,515 | 252,828 | 751,986 | 2,074,340 | 1,352,518 | 336,979 | 5,799,216 |
| **Securities purchased under reverse repurchase agreements** | 2,173,297 | 639,005 | — | 79,634 | 248,292 | — | — | — | 3,140,228 |
| **Loans**[1] | | | | | | | | | |
| Personal loans | 18,583 | 17,726 | 14,713 | 33,193 | 91,301 | 104,487 | 12,224 | 3,828,648 | 4,120,875 |
| Residential mortgages | 1,087,848 | 1,083,096 | 1,216,124 | 968,575 | 3,871,161 | 7,948,695 | 50,837 | 115,554 | 16,341,890 |
| Commercial loans | 2,342,341 | 919,009 | 1,172,762 | 758,031 | 2,421,636 | 2,027,004 | 1,097,008 | 1,992,569 | 12,730,360 |
| Allowances for loan losses | — | — | — | — | — | — | — | (173,522) | (173,522) |
| | 3,448,772 | 2,019,831 | 2,403,599 | 1,759,799 | 6,384,098 | 10,080,186 | 1,160,069 | 5,763,249 | 33,019,603 |
| **Others** | 2,924 | 604 | 615 | 688 | 4,041 | 685 | — | 1,526,214 | 1,535,771 |
| **Total assets** | $ 6,760,624 | $2,927,819 | $2,513,729 | $2,117,949 | $7,388,417 | $12,155,211 | $2,512,587 | $7,791,324 | $44,167,660 |
| **Liabilities and equity** | | | | | | | | | |
| **Deposits** | | | | | | | | | |
| Personal deposits[1] | $ 2,166,644 | $2,105,253 | $1,671,329 | $1,461,809 | $3,358,456 | $ 2,774,267 | $ 28,893 | $ 5,229,499 | $18,796,150 |
| Business, Banks and other deposits[1] | 244,701 | 160,147 | 206,613 | 146,803 | 170,395 | 46,704 | 844 | 1,663,364 | 2,639,571 |
| Institutional deposits | 416,900 | 648,000 | — | 238,450 | 778,610 | 402,522 | — | — | 2,484,482 |
| | 2,828,245 | 2,913,400 | 1,877,942 | 1,847,062 | 4,307,461 | 3,223,493 | 29,737 | 6,892,863 | 23,920,203 |
| **Obligations related to securities sold short**[2] | 752,043 | 66,222 | 5,873 | 50,886 | 162,715 | 754,313 | 1,227,405 | 1,252 | 3,020,709 |
| **Obligations related to securities sold under repurchase agreements** | 343,343 | 1,404,868 | — | 159,793 | 503,645 | — | — | — | 2,411,649 |
| **Other Liabilities** | 3,048 | 3,610 | 3,552 | 3,531 | 23,208 | 31,695 | 92,018 | 1,509,257 | 1,669,919 |
| **Debt related to securitization activities**[3] | 536,301 | 362,566 | 708,099 | 290,437 | 1,637,102 | 5,406,786 | 1,092,918 | 150,288 | 10,184,497 |
| **Subordinated debt** | — | — | — | — | 349,442 | — | — | — | 349,442 |
| **Equity** | — | — | 125,000 | — | — | 125,000 | — | 2,361,241 | 2,611,241 |
| **Total liabilities and equity** | $ 4,462,980 | $4,750,666 | $2,720,466 | $2,351,709 | $6,983,573 | $ 9,541,287 | $2,442,078 | $10,914,901 | $44,167,660 |

(1) Amounts collectible on demand are considered to have no specific maturity.
(2) Amounts are disclosed according to the remaining contractual maturity of the underlying security.
(3) Personal loan securitization cash flows are based on a behavioural prepayment model.

| | Term | | | | | | | | 2019 |
|---|---|---|---|---|---|---|---|---|---|
| | 0 to 3 months | Over 3 months to 6 months | Over 6 months to 9 months | Over 9 months to 12 months | Over 1 year to 2 years | Over 2 years to 5 years | Over 5 years | No specific maturity | Total |
| **Assets** | | | | | | | | | |
| **Cash and non-interest-bearing deposits with banks** | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 90,658 | $ 90,658 |
| **Interest-bearing deposits with banks** | 252,325 | — | — | — | — | — | — | 70,572 | 322,897 |
| **Securities** | 818,057 | 754,946 | 410,771 | 122,511 | 672,955 | 2,031,415 | 1,091,422 | 397,859 | 6,299,936 |
| **Securities purchased under reverse repurchase agreements** | 2,538,285 | — | — | — | — | — | — | — | 2,538,285 |
| **Loans**[1] | | | | | | | | | |
| Personal loans | 16,433 | 14,320 | 18,025 | 11,124 | 76,995 | 190,406 | 18,368 | 4,314,853 | 4,660,524 |
| Residential mortgages | 987,578 | 1,027,376 | 1,309,644 | 1,189,747 | 3,974,066 | 7,421,955 | 36,266 | 93,048 | 16,039,680 |
| Commercial loans | 2,063,926 | 840,242 | 1,029,731 | 635,460 | 2,387,209 | 2,104,681 | 792,106 | 2,792,977 | 12,646,332 |
| Customers' liabilities under acceptances | 319,992 | — | — | — | — | — | — | — | 319,992 |
| Allowances for loan losses | — | — | — | — | — | — | — | (100,457) | (100,457) |
| | 3,387,929 | 1,881,938 | 2,357,400 | 1,836,331 | 6,438,270 | 9,717,042 | 846,740 | 7,100,421 | 33,566,071 |
| **Others** | 1,281 | 1,588 | 1,200 | 1,422 | 2,180 | 3,805 | 79 | 1,523,725 | 1,535,280 |
| **Total assets** | $ 6,997,877 | $2,638,472 | $2,769,371 | $1,960,264 | $7,113,405 | $11,752,262 | $1,938,241 | $9,183,235 | $44,353,127 |
| **Liabilities and equity** | | | | | | | | | |
| **Deposits** | | | | | | | | | |
| Personal deposits[1] | $ 1,912,268 | $1,698,393 | $1,534,854 | $1,539,422 | $4,607,963 | $ 4,296,013 | $ 51,413 | $4,106,934 | $19,747,260 |
| Business, Banks and other deposits[1][2] | 200,826 | 119,606 | 267,181 | 157,174 | 358,086 | 53,150 | 4,617 | 1,609,801 | 2,770,441 |
| Institutional deposits[2] | 833,043 | 147,000 | — | 300,000 | 818,673 | 1,036,187 | — | — | 3,134,903 |
| | 2,946,137 | 1,964,999 | 1,802,035 | 1,996,596 | 5,784,722 | 5,385,350 | 56,030 | 5,716,735 | 25,652,604 |
| **Obligations related to securities sold short**[3] | 499,739 | 94,645 | 12,758 | 3,140 | 195,115 | 859,115 | 930,342 | 23,293 | 2,618,147 |
| **Obligations related to securities sold under repurchase agreements** | 2,558,883 | — | — | — | — | — | — | — | 2,558,883 |
| **Other Liabilities** | 319,992 | — | — | — | — | — | — | 1,373,406 | 1,693,398 |
| **Debt related to securitization activities**[4] | 600,757 | 262,850 | 559,041 | 314,816 | 2,079,666 | 4,336,901 | 741,821 | 17,481 | 8,913,333 |
| **Subordinated debt** | — | — | — | — | — | 350,000 | — | (899) | 349,101 |
| **Equity** | — | — | — | — | 125,000 | 125,000 | — | 2,317,661 | 2,567,661 |
| **Total liabilities and equity** | $ 6,925,508 | $2,322,494 | $2,373,834 | $2,314,552 | $8,184,503 | $11,056,366 | $1,728,193 | $9,447,677 | $44,353,127 |

(1) Amounts collectible on demand are considered to have no specific maturity.
(2) Comparative figures for Business, Banks and other deposits have been reclassified in order to conform with the presentation adopted in the current year.
(3) Amounts are disclosed according to the remaining contractual maturity of the underlying security.
(4) Personal loan securitization cash flows are based on a behavioural prepayment model.

## OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of loss or harm from resulting from a failure ascribable to human resources resulting from a failure ascribable to human resources, inadequate or failed internal processes or technology and systems, or from external events including legal risk but excluding regulatory, strategic and reputational risks. Operational risk is inherent in all the Bank's activities and can lead to significant impacts on the business, including financial loss, reputational harm and/or regulatory sanctions. Although operational risk cannot be eliminated entirely, it can be managed in a thorough and transparent manner to keep it at an acceptable level. Given the large volume of transactions we process on a daily basis, and the complexity and speed of our business operations, there is a possibility that certain operational or human errors may be repeated or compounded before they are discovered and rectified. The Operational Risk Management Framework determines how that risk is identified, evaluated and the decisions made to accept, mitigate or transfer the risk.

Operational risk is further broken down into the following categories:

- Fraud;
- Information Security and Protection;
- Human Resources Management and Workplace Health and Safety;
- Customer Products and Practices;
- Damage to Physical Assets and Business Continuity;
- Information Technology;
- Execution, Delivery and Process Management;
- Data Management; and
- Suppliers and Vendors.

The Operational Risk Management Framework and Policy are reviewed annually by the Risk Management Committee of the Board describes the operational risk management program based on the "three lines of defence" model and specifies the roles and responsibilities of the various stakeholders. As the first line of defence, the business units own the risks generated by their day-to-day activities and are accountable for their effective management. Operational Risk Management, as part of the second line of defence, establishes the operational risk management framework, provides independent oversight of risk-taking by the first line of defence and conducts an effective objective assessment of their risk profile. Internal Audit, as the third line of defence, examines the approach and effectiveness of the operational risk management program.

The Operational Risk Management Framework outlines how operational risk is managed. Key elements of this framework include:

- The *Operational risk appetite* is aligned to the overall risk appetite of the organization establishing boundaries of permitted risk taking.
- *Risk and control assessment* is performed by the various business units and aims to identify and assess the key operational risks related to their sectors and their key processes.
- *Risk and control assessment related to initiative management* is performed to ensure that the key risks related to important initiatives are identified, assessed and effectively mitigated.
- *Internal and external risk events* provide useful information to assess the Bank's overall operational risk exposure and to reduce the likelihood of future risk events. Business units are required to produce root cause analyses of major events to prevent their re-occurrence.
- *Key risk indicators* provide objective measurements that facilitate the facilitate the monitoring and management of operational risks.
- *Scenario analysis* provides insight to the potential impact of low probability but severe impact risk events and insight into how they may be potentially mitigated.
- *Sound business continuity management* aims to ensure that key activities are maintained in the event of a disruption to reduce the negative impacts on our customers, counterparties and other stakeholders.
- *Supervision of the supplier risk management* implements robust control mechanisms so that the use of a third party proving to be more efficient, competent or less expensive, does not create undue risk for the Bank.
- *Reporting of the operational risk profile* is performed on a quarterly basis incorporating all the operational risk tools into the assessment. These risk profiles are discussed and challenged via the various governance committees and ultimately consolidated to provide an enterprise view of operational risk.
- A *corporate insurance program* protects against unexpected material losses and is used to satisfy requirements under the law, regulations or contractual agreements.

### Impact of COVID-19 on operational risk management

In order to ensure the Bank's operational resilience during the pandemic and implement the recommended actions prescribed by health authorities, the Bank set in motion its crisis management protocol. Business continuity plans were activated to use our alternate site strategy for critical functions to allow for a significant portion of our workforce to work from home. Senior executives frequently convene to assess the impact of the crisis on the Bank and ensure that necessary actions are promptly initiated.

The large-scale migration of employees to a remote-work environment may potentially increase our risk posture around information security, fraud and technology risks. In addition, key operational dependencies with third parties are further magnified in this environment due to reliance on the effectiveness of their respective continuity plans. The Operational Risk Management Framework is being used to oversee and monitor these key risks along through the governance processes in place through our various internal committees.

## REGULATORY COMPLIANCE AND LEGAL RISK MANAGEMENT

Regulatory compliance risk is the risk of non-compliance with applicable laws, prescribed practices, contractual obligations, public commitments, voluntary codes and ethical standards expected by regulators, customers, investors, employees and other stakeholders. Failure to meet regulatory and legal requirements can impact the Bank's ability to meet strategic objectives, poses a risk of regulatory sanctions, may lead to litigation and/or cause reputational harm. The Regulatory Risk Management Policy implements the Bank's Regulatory Risk Management Program, which includes the following elements:

- Identification of the regulatory requirements applicable to the Bank and regulatory risk assessment;
- Definition of key risk indicators to measure and monitor exposure to regulatory risk;
- Risk and control assessments are performed by the various business units to asses compliance with applicable regulatory requirements;
- Development, documentation, application of risk mitigation measures and self-assessment of the effectiveness of controls to ensure compliance with regulatory requirements;
- Independent assessment of the effectiveness of controls performed by the Office of the Chief Regulatory Risk Management Officer (Chief Compliance Officer);
- Identification and reporting of non-compliance issues as appropriate;
- Reinforcement of controls and correction of non-compliance issues.

Regulatory risk management includes among other things, regulatory requirements related to Anti-Money Laundering and Terrorist Activity Financing (AML) and personal information protection, which are governed by specific policies.

The Regulatory Risk Management Committee is responsible to:

- Review, annually, the Regulatory Risk Management Policy and recommend its approval to the Executive Committee;
- Discuss new regulations and their application with the relevant sectors;
- Review and comment on the different regulatory risk management tools;
- Exchange on internal observations and industry trends, as well as on regulatory risk management best practices to be adopted;
- Escalating issues to the Executive Committee.

A specific Anti-Money Laundering and Terrorist Financing Program Coordination Committee oversees applicable requirements. Its responsibilities mirror those of the Regulatory Risk Management Committee.

Regulatory risk management reports are submitted at least annually to the Corporate Risk Committee and the Risk Management Committee of the Board. The effectiveness of the Regulatory Risk Management Program and the AML Program is assessed annually.

## STRATEGIC RISK MANAGEMENT

Strategic risk is the risk of loss or harm due to inadequate business plans, strategies or decision-making processes and improper allocation and use of the Bank's resources. It also results from the potential adverse effects of changes in the economic, competitive, regulatory, tax or accounting environment on the Bank's results and/or the failure to respond appropriately to these changes as a result of inaction, ineffective strategies or poor implementation of strategies. Strategies include merger and acquisition activities.

The Executive Committee is responsible for managing the Bank's strategic risks. Each year, a strategic planning process is carried out to analyze strengths, weaknesses, opportunities, and threats to determine the profitability and risk profiles of the Bank. The Bank's overall strategy is established by the Executive Committee and submitted to the Board of Directors for approval.

Through the Executive Committee, the Bank monitors the execution of its strategic plan. The Bank's ability to meet its objectives and deliver on its strategic plan depend on its capacity to transform the organization as it develops its new account management platform and modernizes its retail distribution network, while maintaining an adequate level of service to customers and protecting profitability.

## REPUTATIONAL RISK MANAGEMENT

Reputational risk is the risk that perceptions of stakeholders, whether true or not, regarding the Bank's business practices, actions or inactions will negatively impact the Bank's image, value, brand, revenues, operations, liquidity or client base, or require costly litigation or other measures to remediate.

Reputational risk most often results from the inadequate management of other risks and may affect almost every activity of a financial institution, even when operations are, from a technical point of view, in compliance with legal, accounting and regulatory requirements. The Bank's reputation is a valuable business asset that is essential to continued growth and shareholder value and therefore, is constantly at risk.

The Corporate Risk Committee controls and supervises reputational risk management through the application of a Reputational Risk Policy. This policy is an integral part of the Risk Management Framework. Throughout the execution of the Bank's strategies, officers, administrators, managers and every employee are responsible for ensuring the Bank's reputation remains adequate. The Code of

Conduct and other policies also enable the adequate management of potential threats that could have a direct or indirect impact on the Bank's reputation.

#### Impact of COVID-19 on reputational risk management

Implementation of the government recommended actions during the COVID-19 pandemic, most notably the social distancing requirement, has led the Bank to review all its contact points between staff members and with customers and adjust its related business processes. Combined with the simultaneous increase in customers' needs during this difficult period, these adjustments may have an impact on customer experience.

## MODEL RISK MANAGEMENT

The Bank uses various models to inform business, risk and capital management decision-making. Model risk is the potential for loss or harm arising from models, and other estimation approaches and their outputs, not performing or capturing risk as expected. It also arises from the inappropriate use of a model. It can lead to financial loss, reputational risk, or incorrect business and strategic decisions. The Model Risk Management Policy establishes a formal framework to identify, asses, manage and control the risk inherent to the usage of models. Models are updated on a regular basis to incorporate current trends. In addition, the models are validated by a validation group that is independent of both the specialists who developed the models and the concerned business units.

## OTHER RISKS THAT MAY AFFECT FUTURE RESULTS

In addition to the major business risks described above, there are other risks, many of which are beyond the Bank's control and the effects of which can be difficult to predict, that could cause our actual results to differ significantly from our plans, objectives and estimates or other forward-looking statements. All forward-looking statements, including those in this document, are, by their very nature, subject to inherent risks and uncertainties, general and specific, which may cause the Bank's actual results to differ materially from the expectations expressed. Some of these factors are discussed below and others are noted in the "Caution Regarding Forward-Looking Statements" section of this document.

The following section presents a summary of the other risks that may affect results.

#### Impacts of the COVID-19 pandemic

In March 2020, COVID-19 had spread worldwide and was declared a global pandemic by the World Health Organization. The COVID-19 pandemic has significantly disrupted global health, economic and market conditions, which has triggered an indeterminate period of slowdown in the global economy and recessions. Actions taken by governmental and non-governmental bodies to curtail activity in an effort to help slow the spread of COVID-19, including the implementation of mandatory quarantines, restrictions on travel and "stay-at-home" orders have caused and may continue to cause significant business interruptions. In addition, governments and other regulatory entities have introduced various personal and business relief programs and changes to monetary policy in order to stabilize the economy.

The full impact of the COVID-19 pandemic on the Canadian and U.S. economies, including the impact of the preventative and mitigation measures that governments, central banks, monetary and regulatory authorities and other third parties continue to take to combat the spread of the disease, continues to rapidly evolve. Despite the lifting of certain restrictive measures, recent resurgences of the virus in Canada and the continuing spread of the pandemic in the United States, and any further resurgences of the pandemic may cause the reintroduction of previously loosened or eliminated restrictions or the imposition of new restrictions. Although banking services are considered essential services in Canada and therefore have so far been maintained despite the lockdown and social distancing measures, the COVID-19 pandemic has had and continues to have material adverse repercussions on our business, team members and third-party providers, has threatened our customers' solvency and has created and continues to create significant volatility and negative pressure on virtually all national economies as well as financial markets. At the present time, no person, entity or expert can accurately predict the duration or scope of the pandemic and, although some impacts have materialized, it remains challenging for the Bank to accurately estimate or quantify the full scope and magnitude of the pandemic's impact on the Bank, its business, financial condition and prospects. The COVID-19 pandemic has adversely affected and may continue to adversely affect the Bank's financial and operating results, and may also adversely affect in the future the Bank's regulatory capital and liquidity ratios and ability to meet regulatory and other requirements due to, among other factors:

- Higher expected credit losses, including on residential mortgage loans, which are sensitive to forward-looking macro-economic scenarios including projections for a slow economic recovery and impact our commercial and personal loan portfolios, as a result of financial stress on our customers. This could be exacerbated in circumstances of interruption or modifications to the extraordinary governments' income support programs to households and businesses. It is difficult at this juncture to predict whether the increase in expected credit losses we have recognized will result in significant write-offs and if the Bank will recognize additional increases in expected credit losses in subsequent periods.
- A reduction in loan levels, which adds pressure on our revenues by impacting both net interest income and margins. Specifically, we have experienced a decrease in loans to business customers due in part to the effect of the pandemic. Inventory financing volumes were negatively impacted and dealers experienced difficulties in replenishing inventory. This is a result of higher repayments due to the increased demand for boats and other recreational vehicles in Canada and the U.S during the pandemic.
- A decrease in service charges revenues as a result of lower level of in-branch and ATM transactions. The COVID-19 pandemic has accelerated the ongoing changes to retail customers banking behaviour, as they gradually adopt digitally-based services.
- A decrease in card services revenues as Visa credit card transaction volumes decline.

- Delays in pursuing the Bank's transformation under the Bank's strategic plan launched in November 2015. The continued response to the COVID-19 pandemic could continue to divert management's attention from the strategic plan, increase costs as the Bank prioritizes health and safety matters and complies with mitigation measures imposed upon it, and cause the Bank to reduce, delay or alter initiatives that may otherwise increase its long-term value. For example, the Bank is currently reassessing or has extended the implementation timelines for the following programs: the core-banking system replacement program, the evolution to a 100% advice model and the adoption of the Advanced Internal Ratings-Based approach to credit risk.
- The possibility that the Bank of Canada could opt for negative interest rates, or that Canada's credit rating might get downgraded.
- Reduced insurance income, net of claims, driven by higher customer claims. In addition, there is a risk of increasing insurance premiums for insurance policies held by the Bank and the risk that some insurance policies may not be renewed or may be offered on terms and conditions that are not advantageous.
- A decline in immigration due to health and travel restrictions. Persistently weaker immigration flows could alter the housing outlook in the medium term, although the federal government does have plans to make up for the weak immigration inflow by welcoming more immigrants.
- Information technology and cybersecurity risks have increased as technology in employees' homes may not be as robust as in the Bank's offices and could cause the networks, information systems, applications, and other tools available to employees to be more limited or less reliable than the Bank's in-office technology. This has led to an increase in the number of potential points of attacks, including increased phishing attacks, introduction of malware, malware-embedded mobile apps that purport to track infection rates, targeting of vulnerabilities in remote access platforms and may cause impairment of the ability to perform critical functions. The Bank could also face legal, reputational and financial risks if it fails to protect privacy and sensitive data from security breaches or cyberattacks.
- The spread of COVID-19 may impact the physical and mental health of the Bank's personnel, including members of its management team, reducing the availability of its workforce (i.e., creating difficulties in attracting, retaining and mobilizing employees) and causing human impacts that may, in turn, negatively impact its business. The implementation of work-from-home and safety measures may not be sufficient to mitigate the risk of infection and could result in increased illness among the Bank's employees and customers and associated business interruption. In addition, the Bank may experience employee absenteeism, including as a result of personnel with increased caregiving responsibilities at home due to the pandemic. These impacts may be compounded by other seasonal illnesses, such as the seasonal flu.
- Changes to our operations due to higher volumes of client requests.
- Unexpected developments in financial markets, regulatory environments, or consumer behaviour and confidence.

Due to the unprecedented and ongoing nature of the COVID-19 pandemic and the fact that the response to the pandemic is evolving in real time, estimates of the economic impacts of the COVID-19 pandemic remain inherently highly uncertain and speculative. While the Bank has taken measures to preserve the financial strength and stability of the Bank, and continues to manage capital and liquidity prudently, such efforts may not sufficiently mitigate the negative impacts of COVID-19 on the business and the effectiveness of these efforts and the extent to which the COVID-19 pandemic affects the Bank's business will depend on factors beyond its control, including the duration and scope of the pandemic and the current resurgences of the pandemic as well as the likelihood, timing, duration and scope of any further resurgences or accelerating spread of COVID-19, the measures taken or necessary to contain the spread of such outbreaks, the timing, development and distribution of one or more effective vaccines and/or effective therapeutic treatments for COVID-19, how quickly and to what extent normal economic activity can resume, and the prolonged effects on our customers. Even after the COVID-19 pandemic is over, the Bank may continue to experience material adverse effects to its business, financial condition and prospects as a result of the continued disruption in the global economy and any resulting recession, the effects of which may persist beyond that time and which may not be fully reflected in our results of operations until future periods.

The COVID-19 pandemic may also have the effect of heightening other risks and uncertainties disclosed and described in the section entitled "Risk Appetite and Risk Management Framework", such as, but not limited to, those related to operational, reputational, and human capital risk.

#### Technology, information systems and cybersecurity

Technology, which is now omnipresent in our daily lives, is at the heart of banking services and has become the main driver of innovation in the financial sector. As such, the security and performance of the Bank's information and technology infrastructure is critical to business operations, ensuring the integrity of its systems and records and for maintaining confidence of the Bank's clients and other stakeholders. Due to the nature of the Bank's operations, its reliance on technology to conduct day-to-day activities, and its evolving technological infrastructure, it is subject to increased risks in the form of cyber-attacks, data breaches, malicious software, unauthorized access, hacking, phishing, identity theft, intellectual property theft, asset theft, industrial espionage, cyber extortion and similar compromises and possible denial of service due to activities causing network failures and service interruptions. Threats are not only increasing in volume but in their sophistication as adversaries use ever evolving technologies and attack methodologies. The Bank's use of third-party service providers, which are also subject to these potential compromises, increases its risk of a potential attack, breach or disruption as it has less immediate oversight over their systems and control environment.

Processes are in place to protect the Bank's network and operations from cyber incidents and emerging cyber threats. Nonetheless, the Bank is exposed to risks related to cybersecurity and the increasing sophistication of cyber-attacks. Losses in connection with these evolving risks are mainly related to potential reputational damage, the misappropriation or unauthorized release of confidential financial of personal information, as well as disruption to operations. Furthermore, such attacks may result in client attrition, regulatory sanctions or penalties, litigation, compliance costs, remediation costs, loss of revenue, additional regulatory scrutiny, litigation and reputational damage.

#### Technological disruption, competition and strategic plan

The pace of technology innovation continues to impact the financial services industry and its customers. Non-financial institutions continue to offer banking products and services in competition with traditional banks in certain segments of banking including retail payments, consumer and commercial lending, foreign exchange and investment advisory services using new technologies, advanced data and analytical tools. Such non-traditional service providers may have less stringent regulatory requirements and oversight. Failure to keep pace with these new technologies and the competition they enable could impact our revenues and earnings over time, if customers choose the services of these new market entrants. Increased competition from non-traditional service providers may require additional investment in order to meet clients' changing expectations, streamline operations and to remain competitive, which may increase expenses. In addition, the Bank's pricing of products and services may be impacted and may cause us to lose revenue and/or market share. The capacity of the Bank to manage these risks or to innovate and develop technology can affect prospective results. Furthermore, failure to properly review critical changes within the business before and during the implementation and deployment of key technological systems or failure to align client expectations with the Bank's client commitments and operating capabilities could adversely affect the Bank's operating results or financial position

Over the past few years, we launched major initiatives with the objective of building a stronger foundation and modernizing the Bank in order to improve financial performance. There can be no assurance that these initiatives will succeed in whole or in part. Implementation of these initiatives present various managerial, organizational, administrative, operational and other challenges, and the Bank's organizational, administrative and operational systems may require adjustments. If the Bank is unable to successfully execute on any or all of the initiatives, the Bank's revenues, operating results and profitability may be adversely affected. Even if the Bank successfully implements its initiatives, there can be no guarantee that it will achieve its intended objectives of improved revenues, operating results and/or profitability. A renewed strategic direction may also be required to achieve such objectives.

#### Economic climate in the U.S. and Canada

The Bank's operations are mainly carried on in Canada and, to a lesser extent, in the U.S. Consequently, the Bank has limited direct exposure outside of North America. As a result, the Bank's earnings are significantly affected by the general business and economic conditions in these regions. Factors such as fluctuations in interest rates, labour market conditions, real estate market conditions, financial market developments and related market liquidity, employment levels, business and household's indebtedness and spending levels, monetary and fiscal policies, evolving consumer trends and business models, business investment, government spending, exchange rates, sovereign debt risks, the strength of the economy, threats of terrorism, civil unrest, the effects of public health emergencies, the effects of disruptions to public infrastructure, natural disasters and geopolitical events may have an effect on our overall revenue and earnings.

Risks related to government policy, international trade and political relations across the global landscape may impact overall market and economic stability in the regions in which the Bank operates. A sharp increase in trade protectionism including targeted trade bans on Canadian products could paralyze credit demand and adversely impact the performance of loan portfolios in specific industries. See also "Impacts of the COVID-19 pandemic".

#### Accounting policies, estimates and developments

The Bank's accounting policies and estimates are important to understanding its Consolidated Financial Statements. Some accounting policies require management to apply judgment to make particularly significant estimates that, by their very nature require complex judgments and estimates and relate to matters that are inherently uncertain. Changes in these estimates could materially affect the Bank's Consolidated Financial Statements. In addition, changes in accounting standards, including their effect on the Bank's accounting policies, estimates and judgments may affect the Bank's Consolidated Financial Statements when a new standard becomes applicable. Procedures have been established to ensure accounting policies are applied consistently and the process for adopting new accounting standards is well controlled. Please refer to the sections "Critical Accounting Policies and Estimates" and "Future Changes to Accounting Policies" for further details.

#### Legal and regulatory compliance

Regulatory compliance risk is the risk of potential non-conformance with laws, rules, regulations and prescribed practices. Issues regarding compliance with laws and regulations can arise in a number of areas in a large complex financial institution such as the Bank and are often the result of inadequate or failed internal processes, people or systems. We operate in a complex regulatory environment and we are from time to time subject to a variety of legal proceedings, including civil claims and lawsuits, criminal charges, regulatory examinations, investigations, audits and requests for information by various governmental regulatory agencies and law enforcement authorities in various jurisdictions. There is no assurance that we always will be, or be deemed to be, in compliance with laws, regulations or regulatory policies. Accordingly, it is possible that we could receive a judicial or regulatory judgment or decision that results in fines, damages, penalties, and other costs or injunctions, criminal convictions, or loss of licenses or registrations that would damage our reputation, and negatively impact our earnings and ability to conduct some of our businesses. In addition, we are subject to litigation arising in the ordinary course of our business and the adverse resolution of any litigation could have a significant adverse effect on our results or could give rise to significant reputational damage, which in turn could impact our future business prospects. Although the Bank establishes provisions for the measures it is subject to under accounting requirements, actual losses resulting from such litigation could differ significantly from the recognized amounts.

For example, in June 2020, a plaintiff filed an application seeking leave to institute a class action in the Superior Court of Québec against the Bank, as well as a current executive and a former executive. The application alleges that the Bank and executives violated the *Quebec Securities Ac*t and Civil Code through alleged misrepresentations and non-disclosures regarding the Bank's and a subsidiary's mortgage loan securitization activities, and related mortgage underwriting procedures. A date for the court hearing of the application to authorize the proposed class action has not yet been scheduled and the Bank intends to vigorously defend the proceeding.

Changes to laws, including tax laws, regulations or regulatory policies, as well as the changes or uncertainty in how they are interpreted, implemented or enforced, could adversely affect the Bank, for example, by lowering barriers to entry in the businesses in which we operate; increasing costs of compliance or limiting the Bank's activities and ability to execute its strategic plan. Global and National regulatory developments, including capital and liquidity requirements under the Basel Committee on Banking Supervisions global standards (Basel III), will continue to affect the Bank's activities. New regulations applicable to financial institutions have increased significantly and are evolving at a rapid pace. This requires considerable mobilization of technical, human and financial resources in a very short span of time. Consequently, the Bank can be burdened with their rapid implementation and the costs that are involved. These developments could also increase ongoing operational, compliance, and technology costs and therefore impact the complexity of operations and profitability.

The global anti-money laundering and economic sanctions landscape continues to experience regulatory change, with significant, complex new laws and regulations that have, or are anticipated to come into force in the short and medium-term in many of the jurisdictions in which the Bank operates. It is widely recognized that financial institutions are uniquely positioned and possess the means to assist in the fight against money laundering, terrorist financing, and criminal activity (including anti-trafficking and exploitation) through prevention, detection, deterrence and the exchange/reporting of information. In addition, the global data and privacy landscape has and continues to experience regulatory change, with significant new legislation that has been passed and will be implemented in the near term in some of the jurisdictions in which the Bank does business and additional new legislation that is anticipated to come into force in the medium-term. Money laundering, terrorist financing, economic sanctions and data privacy violations represent material risk to the Bank including regulatory, legal, financial and reputational exposure.

### Fraud and criminal activity

As a financial institution, the Bank is inherently exposed to various types of fraud and other financial crime. The sophistication, complexity, and materiality of these crimes evolves quickly, and these crimes can arise from numerous sources, including potential or existing clients or customers, agents, third parties, including suppliers, service providers and outsourcers, other external parties, contractors or employees. In deciding whether to extend credit or enter into other transactions with customers or counterparties, the Bank may rely on information furnished by or on behalf of such customers, counterparties or other external parties including financial statements and financial information and authentication information. The Bank may also rely on the representations of customers, counterparties, and other external parties as to the accuracy and completeness of such information. In order to authenticate customers, whether through the Bank's phone or digital channels or in its branches and stores, the Bank may also rely on certain authentication methods which could be subject to fraud. In addition to the risk of material loss (financial loss, misappropriation of confidential information or other assets of the Bank or its customers and counterparties) that could result in the event of a financial crime, the Bank could face legal action and client and market confidence in the Bank could be impacted.]

### Human capital

The Bank's future performance is largely dependent on its ability to attract, develop and retain key talent. Within the financial industry, competition for employees and senior executives is intense, and there can be no assurance that the Bank will be able to attract and retain these individuals, which could impact its operations and competitiveness. Our senior management team has undergone changes in 2020 and plays a significant role in our success as well as oversees the execution of our business strategies. If the skill sets and diversity of our workforce, including senior management, do not match the operational requirements of the Bank and foster a winning culture, we will likely not be able to sustain our performance. Our ability to retain and motivate our management team or attract suitable replacements should any members of our management team leave is dependent on, among other things, the competitive nature of the employment market and the career opportunities and compensation that we can offer. The loss of key employees, through attrition or retirement or any deterioration in overall employee morale and engagement resulting from organizational changes could have an adverse impact on our operations and financial results. Failure to establish a complete and effective succession plan, including preparation of internal talent and identification of potential external candidates, where relevant, for key roles, could impair our business until qualified replacements are found.

Significant changes to the Bank's work environment were brought on by the COVID-19 pandemic. Most notably, a large share of the Bank's employees has been working remotely since the onset of the crisis. These changes could potentially result in difficulties in attracting, retaining and mobilizing employees. The Bank has implemented several key initiatives to prioritize the safety and well-being of its employees during the crisis.

Approximately 20% of the Bank's employees are represented by a union and are covered by a collective bargaining agreement which was ratified in April 2019 and is valid until December 2021. The majority of the Bank's unionized employees work in our Quebec Retail Network, and some of them are employed in the Bank's corporate offices in Montreal. Renewal of collective agreements could result in higher labour costs. During the bargaining process there could be operational delays and work disruptions, which could adversely affect service to our customers and, in turn, our financial performance.

### Insurance risk

Insurance risk is the risk of loss that may occur when assumptions related to insurance risks assumed by the Bank, particularly about formulating assumptions used to set premiums or for the valuation of reserves, differ from actual insurance results. The Bank assumes certain insurance risks, mainly regarding creditor insurance products. Insurance risk is managed within an independently managed program overseen by insurance experts and by Bank representatives. Reinsurance coverage is underwritten to reduce the Bank's exposure arising from significant claims and catastrophes, including terrorist events. In addition, the design and pricing of insurance products distributed by the Bank are reviewed by actuarial consultants, based on best practices.

### Business continuity

Unexpected external events such as natural disasters, pandemics and epidemics and other crises are factors that can impact the Bank's ability to operate it businesses, including providing clients access to products and services. Resources, processes and results of the Bank could be affected by the ability to activate a business continuity plan in a timely manner. Contingency planning for such events has been considered in the Bank's Risk Management Framework and is managed through the Business Continuity Management Policy, which provides us with the capability to restore, maintain and manage critical operations and processes in the event of a business disruption.

### Business infrastructure

The Bank deals with third parties to secure the components essential to its business infrastructure, such as internet connections and various communication and database services. Disruption of such services could adversely affect the Bank's ability to provide its products and services to its clients, disrupt operations and/or cause reputational harm.

### Environmental and social risk and climate change

Environmental and social risk refers to the possibility of financial, strategic, operational or reputational losses or harm resulting from environmental issues including climate change and related social issues, whether arising from the Bank's products, clients, suppliers, credit and investment activities or related to the Bank's operations. It includes site contamination, waste management, land and resource use, biodiversity, water quality and availability, environmental regulation, human rights, Indigenous Peoples' rights and community engagement. It also includes risks arising from climate and environment-related events, including acute events such as floods, droughts, wildfires, earthquakes, hurricanes and other extreme weather events, as well as long-term shifts in weather patterns as a result of climate change. These events could potentially damage the Bank's properties and disrupt our operations, impact our customers and counterparties, and result in reduced earnings and profitability including through higher losses. Potential impacts of such events are managed through the Bank's Business Continuity Management Program, which provides us with the capability to restore, maintain and manage critical operations and processes in the event of a business disruption, and through the Bank's Lending Practices and Policies, which help us to evaluate the risks associated with credit counterparty transactions and exposures. Environmental risk also captures other risks associated with climate change including risks stemming from the transition to a low carbon economy, changes in environmental policies and regulation, as well as reputational risks relating to perceptions of how the Bank contributes to or hinders environmental integrity. Recognizing the growing impacts of climate-change on various industries and regions, and in line with its stakeholders' interests, the Bank is working on developing a sustainability program which will include the roadmap of our efforts to implement the Financial Stability Board's Task-Force on Climate-related Financial Disclosures (TCFD) recommendations.

### Other factors

Other factors, which are not under the Bank's control, could affect results, as discussed in the Caution Regarding Forward-Looking Statements at the beginning of this MD&A. It should be noted that the foregoing list of factors is not exhaustive.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Bank's disclosure controls and procedures (DC&P) are designed to provide reasonable assurance that all relevant information has been collected and submitted to the Bank's senior management which ensures adequate disclosure of such information. Internal Control over Financial Reporting (ICFR) is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

The President and Chief Executive Officer, and the Executive Vice-President and Chief Financial Officer are responsible for the implementation and maintenance of DC&P and ICFR, as set out in Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings (National Instrument 52-109). They are assisted in this task by the Disclosure Committee, which is comprised of members of the Bank's senior management.

As at October 31, 2020, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the effectiveness of DC&P, in accordance with National Instrument 52-109, and based on that evaluation, concluded that they were effective and adequately designed at that date.

Also, as at October 31, 2020, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer caused to be evaluated under their supervision the design and effectiveness of ICFR, in accordance with Regulation 52-109, and based on that evaluation, concluded that it was effective at that date and adequately designed.

The DC&P evaluation was performed using the control framework established in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The evaluation of the design and effectiveness of ICFR was performed in accordance with the COSO control framework for entity level and financial controls, and Control Objectives for Information and related Technologies (COBIT) for general IT controls.

Given the inherent limitations of any control systems, management's evaluation of controls can only provide reasonable, not absolute assurance that all control issues that may result in material misstatement, if any, have been detected.

#### Changes to Internal Control over Financial Reporting

During the fourth quarter ended October 31, 2020, there have been no changes to internal control over financial reporting that affected materially or are reasonably likely to materially affect ICFR.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies followed by the Bank are outlined in Notes 2 and 3 of the Consolidated Financial Statements. Some of these accounting policies are deemed critical as they require management to apply judgment in order to make particularly significant estimates that, by their very nature, involve uncertainties. Changes in these estimates could materially affect the Bank's Consolidated Financial Statements. The critical accounting policies and estimates are described below.

Management has established controls and procedures to ensure these estimates are controlled, reviewed and consistently applied over time. Management believes that the estimates of the value of the Bank's assets and liabilities are appropriate.

In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of the items listed below, it is possible that the outcomes in future reporting periods could differ from those on which management's estimates are based. This could result in materially different estimates and judgments from those reached by management for the purposes of the Consolidated Financial Statements.

#### COVID-19 impact on judgments, estimates and assumptions

The preparation of financial information requires the use of estimates and judgments about future economic conditions. The global pandemic related to an outbreak of COVID-19 has amplified uncertainty on the assumptions used by management in making its judgments and estimates. The full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on the Canadian and U.S. economies and the Bank's business is highly uncertain and difficult to predict at this time. Accordingly, there is a higher level of uncertainty with respect to management's judgments and estimates.

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions.

The fair value of a financial instrument on initial recognition is normally the transaction price, that is, the fair value of the consideration given or received. In certain circumstances, the initial fair value may be based on other observable market transactions for the same instrument or on a valuation technique.

Subsequent to initial recognition, the fair value of financial instruments is best evidenced by quoted prices in active markets when available. This fair value is based on the quoted price within the bid-offer prices that is most representative of fair value in the circumstances. Otherwise, fair value is measured using valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Determining which valuation technique and inputs to apply requires judgment. Valuation techniques include cash flow discounting, comparison with current market prices for financial instruments with similar characteristics and risk profiles and option pricing models. The inputs, among other things, include contractual prices of the underlying instruments, yield curves and volatility factors. The valuations may also be adjusted to reflect the uncertainty in these parameters. Valuation adjustments may specifically be made with respect to the liquidity or counterparty credit risk of financial instruments that have no available quoted prices in active markets. Fair value reflects market conditions on a given date and for this reason cannot be representative of future fair values.

Fair value measurements are categorized into levels within a fair value hierarchy based on the valuation inputs used. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 — Quoted prices in active markets for identical financial instruments.
- Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 — Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Establishing fair value is an accounting estimate and has an impact on Securities at fair value through profit or loss, Securities at fair value through other comprehensive income, Derivatives and Obligations related to securities sold short on the Consolidated Balance Sheet. This estimate also has an impact on Income from financial instruments in the Consolidated Statement of Income. Lastly, this estimate has an impact on Other comprehensive income in the Consolidated Statement of Comprehensive Income.

Refer to Note 23 to the Consolidated Financial Statements for additional information.

## ALLOWANCES FOR CREDIT LOSSES

At the end of each reporting period, the Bank applies a three-stage impairment approach to measure the expected credit losses (ECL) on all debt instruments measured at amortized cost or at FVOCI, on loan commitments and financial guarantees that are not measured at fair value and on lease receivables. ECLs are a probability-weighted estimate of credit losses over the remaining expected life of the financial instrument. The ECL model is forward looking. Measurement of ECLs at each reporting period reflects reasonable and supportable information about past events, current conditions, and forecasts of future events and economic conditions. Judgment is required in making assumptions and estimates, determining movements between the three stages, and applying forward-looking information. Any changes in assumptions and estimates, as well as the use of different, but equally reasonable, estimates and assumptions, could have an impact on the allowances for credit losses and the provisions for credit losses for the year. All business segments are affected by this accounting estimate. For additional information, see Note 7 to the Consolidated Financial Statements.

The allowance for credit losses is sensitive to the inputs used in models including macroeconomic variables used in the forward-looking scenarios and their respective weights. As the impact of the COVID-19, including government and/or regulatory responses to the outbreak, on the U.S. and Canadian economies remains highly uncertain, it is difficult to predict whether the increase in expected credit losses will materialize into a significant level of write-offs and whether the Bank will recognize additional increases in expected credit losses in subsequent periods.

*Determining the Stage*
The ECL three-stage impairment approach is based on the change in the credit quality of financial assets since initial recognition. If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and an allowance for credit losses that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded. When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and an allowance for credit losses that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to Stage 1, i.e. recognition of 12-month expected credit losses. When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the impaired financial asset is migrate to the stage 3, an allowance equal to the lifetime expected losses continues to be recorded or the financial asset is written off. Interest income is calculated on the gross carrying amount of the financial assets in stages 1 and 2 and on the net carrying amount of the financial assets in stage 3.

*Assessment of significant increase in credit risk*
In determining whether credit risk has increased significantly, the Bank uses an internal credit risk grading system and external risk ratings. To assess whether the credit risk of a financial instrument has increased significantly, the 12-month probability of default (PD) at the reporting date is compared with the 12-month PD at the date of initial recognition, and reasonable and supportable information indicative of significant increases in credit risk since initial recognition is considered. The Bank includes relative and absolute thresholds in the definition of significant increase in credit risk and a backstop of 30 days past due. All financial instruments that are 30 days past due are migrated to Stage 2 even if other metrics do not indicate that a significant increase in credit risk has occurred. The assessment of a significant increase in credit risk requires significant judgment.

*Measurement of expected credit losses*
ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument, and reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions is considered. The estimation and application of forward-looking information requires significant judgment. The cash shortfall is the difference between all contractual cash flows owed to the Bank and all the cash flows that the Bank expects to receive.

The measurement of ECLs is based primarily on the product of the instrument's PD, loss given default (LGD), and exposure at default (EAD). The IFRS 9 ECL calculation has leveraged, where appropriate, the credit risk model parameters used by the Bank for the collective allowance calculation under IAS 39, namely: PD, LGD and EAD. Forward-looking macroeconomic factors such as interest rates, unemployment rates, gross domestic product (GDP) forecasts and housing price indices are incorporated into the risk parameters. The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. The Bank incorporates three forward-looking macroeconomic scenarios in its ECL calculation process: a base scenario, an upside scenario, and a downside scenario. Probability-weights are attributed to each scenario. The scenarios and probability weights are reassessed quarterly and subject to management review. The Bank applies experienced credit judgment to adjust the modeled ECL results when it becomes evident that known or expected risk factors and information were not considered in the credit risk rating and modeling process.

ECLs for all financial instruments are recognized in provisions for credit losses in the Consolidated Statement of Income. In the case of debt instruments measured at FVOCI, ECLs are recognized in provisions for credit losses in the Consolidated Statement of Income, and a corresponding amount is recognized in Other comprehensive income with no reduction in the carrying amount of the asset on the

Consolidated Balance Sheet. As for debt instruments measured at amortized cost, they are presented net of the related allowance for credit losses on the Consolidated Balance Sheet. Allowances for credit losses for off-balance-sheet credit exposures that are not measured at fair value are included in other liabilities on the Consolidated Balance Sheet.

*Purchased or originated credit-impaired financial assets*
On initial recognition of a financial asset, the Bank determines whether the asset is credit-impaired. For financial assets that are credit-impaired upon purchase or origination, in subsequent reporting periods the Bank recognizes only the cumulative changes in lifetime expected credit losses since initial recognition as an allowance for credit losses. The Bank recognizes changes in ECLs in provision for credit losses in the Consolidated Statement of Income, even if the lifetime ECLs are less than ECLs that were included in the estimated cash flows on initial recognition.

*Default*
The definition of default used by the Bank to measure ECLs and transfer financial instruments between stages is consistent with the definition of default used for internal credit risk management purposes. The Bank considers a financial asset as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred or when contractual payments are 90 days past due.

*Write-offs*
The Bank writes off an impaired financial asset and its related allowance for credit losses in whole or in part when it considers the probability of recovery to be non-existent and when all guarantees and other remedies available to the Bank have been exhausted and balances owing are not likely to be recovered.

*Payment relief programs*
We have established payment relief programs to help some of our customers manage the challenges posed by COVID-19 through payment deferrals for residential mortgages and some personal and commercial loans. In some cases, the original terms of the associated financial asset may be renegotiated or otherwise modified, affecting the contractual cash flows. In the event of a substantial change in terms from the original financial asset, the financial asset is derecognized, and a new financial asset is recognized. If the modification of contractual terms does not result in derecognition of the financial asset, the carrying amount of the financial asset is recalculated according to the present value of the renegotiated or modified contractual cash flows, discounted at the original effective interest rate and a gain or loss is recognized.

## GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER LONG-LIVED ASSETS

### Goodwill

As at October 31, 2020, goodwill stood at $117.3 million, essentially unchanged compared with October 31, 2019. Goodwill is subject to an impairment test at least annually as described in Note 3 to the Consolidated Financial Statements.

For the purpose of impairment testing, goodwill is allocated to the Bank's cash generating units (CGUs), which represent the lowest level within the Bank at which goodwill is monitored for internal management purposes. The test compares the recoverable amount of the CGU to the carrying amount of its net assets. If the recoverable amount is less than the carrying value, an impairment loss is charged to income. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other non-financial assets of the CGU proportionally based on the carrying amount of each asset.

Management uses several significant estimates, including projected net income growth rates, future cash flows, the number of years used in the cash flow model and the discount rate of future cash flows to determine the recoverable amount of the CGU.

Goodwill as at October 31, 2020 has been allocated to two CGUs, the Personal CGU, which caters to the financial needs of retail clients and the Business Services CGU, which encompasses services provided to small and medium-sized enterprises across Canada and the United States. These CGUs are also operating segments, as described in Note 32 to the Consolidated Financial Statements.

To perform the 2019 annual impairment test, goodwill was allocated to the previous B2B Bank CGU and the Business Services CGU. As of October 31, 2019, the CGUs and operating segments of the Bank have been modified to reflect the Bank's current operating model, as further detailed in Note 32 to the Consolidated Financial Statements for additional information.

*Personal CGU*
As at October 31, 2020, goodwill of $34.9 million was allocated to the Personal CGU, unchanged compared to October 31, 2019.

For the 2020 annual impairment test, the recoverable amount of the Personal CGU was estimated using a value in use calculation that was primarily based on the four-year business plan and projected investments. All forecast cash flows were discounted at an after-tax rate of 9.0%. Management considers that these estimates are reasonable. They reflect management's best estimates but include inherent uncertainties that are not under its control. Management determined that for the impairment testing, the estimated recoverable amount of the Personal CGU was in excess of the CGU's carrying amount. As a result, no impairment charge was recognized during 2020. Changes in estimates and assumptions could significantly impact the impairment test results.

*Business Services CGU*
As at October 31, 2020, goodwill of $82.4 million was allocated to the Business Services CGU, essentially unchanged compared to October 31, 2019.

For the 2020 annual impairment test, the recoverable amount of the Business Services CGU was estimated using a value in use calculation that was primarily based on the four-year business plan and projected investments. All forecast cash flows were discounted at an after-tax rate of 9.0%. Management considers that these estimates are reasonable. They reflect management's best estimates but include inherent uncertainties that are not under its control. Management determined that for the impairment testing, the estimated recoverable amount of the Business Services CGU was in excess of the CGU's carrying amount. As a result, no impairment charge was recognized during 2020. Changes in estimates and assumptions could significantly impact the impairment test results.

Refer to Note 11 to the Consolidated Financial Statements for additional information.

**Other intangible assets and other long-lived assets**

Other intangible assets with finite lives are also tested for impairment whenever circumstances indicate that the carrying value may not be fully recoverable. As it conducts this test, management evaluates the future cash flows it expects to realize from these assets. When the net carrying amount exceeds the estimated discounted future net cash flows, intangible assets with finite lives are considered impaired and are written down to their recoverable amount. Similar tests are performed at least annually for IT projects and other programs under development. For software and other intangible assets that do not generate separate cash inflows, the recoverable amount is determined for the CGU to which the corporate asset is allocated.

In 2020, indicators of impairment were identified for the Bank's long-lived assets as a result of the deterioration in economic conditions caused by the spread of the COVID-19 pandemic and the related changes to the interest rate environment. As such, the carrying amount of these assets was reviewed for impairment at the CGU level as part of the annual impairment test of goodwill. Refer to the Goodwill section above for details.

In 2019, indicators of impairment were identified for the Retail Services CGU's long-lived assets (prior to the CGU modification, see Note 32 which explains this modification). As such, the carrying amount of these assets was reviewed for impairment at the CGU level.

In both 2020 and 2019, management determined that the estimated recoverable amount of the tested CGUs was in excess of the carrying amount. As a result, no impairment charge on the long-lived assets of these CGUs were recognized. Changes in estimates and assumptions could significantly impact the impairment test results.

Management also periodically reviews the value of the Bank's assets, such as intangible assets, fixed assets and other deferred charges, in order to identify potential losses in value and to validate the related amortization periods. No other impairment charges on intangible assets and $3.8 million on premises and equipment were recorded in 2020 (respectively nil and $0.9 million in 2019).

Refer to Notes 9, 10, 11 and 32 to the Consolidated Financial Statements for additional information.

## POST-EMPLOYMENT BENEFITS

The Bank sponsors several benefit plans to eligible employees, including registered and supplemental pension plans, and post-retirement medical and dental plans (other post-employment benefit plans). The valuation of employee benefits for defined benefit pension plans and other post-employment benefits are calculated by the Bank's actuaries based on several assumptions such as discount rates, future salary levels, retirement age, mortality rate and health-care cost escalation. The discount rate is determined using a high-quality corporate bond yield curve, whose construction requires significant judgment. Other key assumptions are determined by management and require significant judgment. Considering the importance of defined benefit obligations and due to the long-term nature of these plans, changes in assumptions could have a significant impact on the defined benefit plan assets (liabilities), as well as on pension plan and other post-employment benefit expenses. Discount rates stood at 2.71% as at October 31, 2020 and 3.01% as at October 31, 2019. Other key assumptions and related sensitivity analysis as well as further information on the Bank's pension plans and other post-employment benefits are presented in Note 19 to the Consolidated Financial Statements.

## INCOME TAXES

The Bank is subject to taxation in numerous jurisdictions. There are many transactions and calculations in the ordinary course of business for which the ultimate tax determination is uncertain. The Bank maintains provisions for uncertain tax positions that it believes appropriately reflect the risk of tax positions under discussion, audit, dispute, or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions are made using the Bank's best estimate of the amount expected to be paid based on an assessment of all relevant factors, which are reviewed at the end of each reporting period. However, it is possible that at some future date, an additional liability could result from audits by the relevant taxing authorities.

The Bank uses the liability method of tax allocation and accounts for the deferred income tax assets and liabilities related to loss carry forwards and other temporary differences between the carrying amounts and the tax bases of assets and liabilities, in accordance with tax laws and rates enacted or substantively enacted on the date the differences are expected to reverse. A valuation allowance is established, as needed, to reduce the deferred income tax asset to the amount that is more likely than not to be realized. All amounts resulting from changes in tax rates are recorded in net income, except to the extent that it relates to items previously recognized in equity, in which case they are recorded in equity.

## PROVISIONS AND CONTINGENT LIABILITIES

Management exercises judgment in determining whether a past event or transaction may result in the recognition of a provision or the disclosure of a contingent liability, for instance in the case of legal actions or restructuring plans.

Provisions are liabilities of uncertain timing or amount. They are recognized when the Bank has a present legal or constructive obligation as a result of a past event, and it is both probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated, considering all relevant risks and uncertainties. Contingent liabilities are disclosed when it cannot be determined whether an obligation is probable, or the amount of loss cannot reliably be estimated. Management and internal and external experts are involved in assessing the probability and in estimating any amounts involved.

In the ordinary course of business, the Bank and its subsidiaries are involved in various legal and regulatory proceedings. Such proceedings involve a variety of issues and the timing of their resolution is varied and uncertain. Legal provisions are recognized when it becomes probable that the Bank will incur an expense related to legal proceedings and the amount can be reliably estimated. Legal provisions are recorded at the best estimate of the amounts required to settle the obligation as at the reporting date, taking into account the risks and uncertainties associated with the obligation. Management and external experts are involved in estimating any legal provision, as necessary. The actual costs of settling some obligations may be substantially higher or lower than the amounts of the provisions. In some cases, it is not possible to either determine whether an obligation is probable or to reliably estimate the amount of loss, in which case no accrual can be made. This is an area of significant judgment and uncertainty, given the varying stages of the proceedings, the fact that the Bank's liability, if any, has yet to be determined and the fact that the underlying matters will change from time to time. As such the extent of our financial and other exposure to such legal proceedings, after taking into account current accruals, could be material to our results of operations in any particular period.

Refer to Note 30 to the Consolidated Financial Statements for additional information.

# FUTURE CHANGES TO ACCOUNTING POLICIES

The International Accounting Standards Board (IASB) has issued new standards and amendments to existing standards which were not yet effective for the year ended October 31, 2020. These future accounting changes are applicable for the Bank in various annual periods beginning on November 1, 2020.

Additional information on the new standards and amendments to existing standards can be found in Note 4 of the Consolidated Financial Statements.

### Conceptual Framework for Financial Reporting

In March 2018, the IASB issued a comprehensive set of concepts for financial reporting, the revised Conceptual Framework for Financial Reporting (Conceptual Framework), replacing the previous version of the Conceptual Framework issued in 2010. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the IASB in developing IFRS Standards. The revised Conceptual Framework has an effective date of January 1, 2020 for companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction. The adoption of the revised Conceptual Framework has no significant impact on the Bank's Consolidated Financial Statements as at November 1, 2020.

### Insurance Contracts (IFRS 17)

In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which sets out the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 replaces the previous insurance contract standard, IFRS 4, *Insurance Contracts*. In March 2020, the IASB has completed its discussions on the amendments to IFRS 17 that were proposed for public consultation in June 2019 and decided that the effective date of the Standard will be deferred to annual reporting periods beginning on or after January 1, 2023. The Board also decided to extend the exemption currently in place for some insurers regarding the application of IFRS 9, Financial Instruments to enable them to implement both IFRS 9 and IFRS 17 at the same time. The Bank is currently assessing the impact of the adoption of this standard on its Consolidated Financial Statements.

### Interest Rate Benchmark (IBOR) Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

In August 2020, the International Accounting Standards Board ("IASB") published *Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16* (the "Amendments"). The Amendments address the accounting issues that arise when financial instruments that reference IBORs transition to nearly risk-free rates RFRs and completes the IASB's work to amend IFRS in response to IBOR reform. The amendments are effective for annual periods beginning on or after January 1, 2021, which will be November 1, 2021 for the Bank. Earlier application is permitted.

The Bank has established an enterprise wide program, aimed at ensuring the transition from IBORs to RFRs. The program has been focused on identifying and quantifying our exposures to various interest rate benchmarks, providing the capability to trade products referencing alternative RFRs, including assessing system changes and impacts on hedge accounting, as well as evaluating our existing contract amendment language with consideration to those extending past 2021, in the event IBORs cease to exist. The Bank is also assessing the potential impact of the adoption of the Amendments on its Consolidated Financial Statements.

THIS PAGE INTENTIONALLY LEFT BLANK

# LAURENTIAN BANK OF CANADA CONSOLIDATED FINANCIAL STATEMENTS

AS AT OCTOBER 31, 2020 AND 2019

## TABLE OF CONTENTS

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Consolidated Financial Statements of Laurentian Bank of Canada and the other financial information contained in the Annual Report have been prepared by management, which is responsible for the integrity and fairness of the financial information presented. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) pursuant to the requirements of the Bank Act and reflect amounts that must, of necessity, be based on the best estimates and judgment of management. The financial information presented in the Annual Report is consistent with that in the Consolidated Financial Statements.

Management is responsible for the implementation of the financial information accounting systems, which support, among others, the preparation of the Consolidated Financial Statements in accordance with IFRS. In discharging its responsibilities, management maintains the necessary internal control systems designed to provide assurance that transactions are properly authorized, assets are safeguarded and proper accounting records are held. The controls include, among other things, quality standards in hiring and training of employees, written policies, compliance with authorized limits for managers, procedure manuals, a corporate code of conduct, budgetary controls and appropriate management information systems.

The internal control systems are further supported by a regulatory compliance function, which ensures that the Bank and its employees comply with regulatory requirements, as well as by risk management and operational risk management functions that ensure proper risk control including maintaining the related documentation and the measurement of the financial impact of risks. In addition, the internal auditors periodically assess various aspects of the Bank's operations and make recommendations to management for improvements to the internal control systems.

Every year, the Office of the Superintendent of Financial Institutions Canada (OSFI) makes such examinations and inquiries as deemed necessary to satisfy itself that the Bank is in a sound financial position and that it complies with the provisions of the Bank Act, particularly those regarding the safety of the depositors and shareholders of the Bank.

Ernst & Young LLP, independent auditors appointed by the shareholders, audit the Bank's Consolidated Financial Statements and their report follows.

The internal auditors and the independent auditors meet periodically with the Audit Committee, in the presence or absence of management, to discuss all aspects of their duties and matters arising therefrom. In addition, OSFI meets with the Board of Directors annually to present its comments on the Bank's operations.

The Board of Directors is responsible for reviewing and approving the Consolidated Financial Statements, as well as the Management's Discussion and Analysis of results of operations and financial condition included in the Annual Report. It oversees the manner in which management discharges its responsibilities for the preparation and presentation of the Consolidated Financial Statements, the maintenance of appropriate internal controls and risk management, as well as the assessment of significant transactions through its Audit Committee and its Risk Management Committee. Both Board committees are composed solely of directors who are not officers or employees of the Bank.

**Rania Llewellyn**

President and
Chief Executive Officer

**François Laurin, FCPA, FCA, CFA**

Executive Vice President
and Chief Financial Officer

**Montréal, Canada**

December 4, 2020

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
## Laurentian Bank of Canada

### Opinion

We have audited the Consolidated Financial Statements of Laurentian Bank of Canada and its subsidiaries (the Group), which comprise the consolidated balance sheets as at October 31, 2020 and 2019, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the Consolidated Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying Consolidated Financial Statements present fairly, in all material respects, the consolidated financial position of the Group as at October 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the Consolidated 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.

### Other information included in the Group's 2020 Annual Report

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the Consolidated Financial Statements and our auditor's report thereon, included in the Annual Report.

Our opinion on the Consolidated Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the Consolidated Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis and the Annual report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

### Responsibilities of Management and those charged with governance for the Consolidated Financial Statements

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

In preparing the Consolidated Financial Statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

### Auditor's responsibilities for the audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

## INDEPENDENT AUDITOR'S REPORT (CONT'D)

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 Consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Ted Di Giorgio.

Ernst + Young LLP[1]

Montréal, Canada
December 4, 2020

[1] CPA auditor, CA public accountancy permit no. A112431

## CONSOLIDATED BALANCE SHEET[(1)]

| As at October 31 (in thousands of Canadian dollars) | Notes | 2020 | 2019 |
|---|---|---|---|
| **Assets** | | | |
| **Cash and non-interest bearing deposits with banks** | | $ 69,661 | $ 90,658 |
| **Interest-bearing deposits with banks** | | 603,181 | 322,897 |
| **Securities** | 6, 8 and 30 | | |
| At amortized cost | | 3,109,698 | 2,744,929 |
| At fair value through profit or loss (FVTPL) | | 2,414,939 | 3,242,146 |
| At fair value through other comprehensive income (FVOCI) | | 274,579 | 312,861 |
| | | 5,799,216 | 6,299,936 |
| **Securities purchased under reverse repurchase agreements** | 30 | 3,140,228 | 2,538,285 |
| **Loans** | 7, 8 and 30 | | |
| Personal | | 4,120,875 | 4,660,524 |
| Residential mortgage | | 16,341,890 | 16,039,680 |
| Commercial | | 12,730,360 | 12,646,332 |
| Customers' liabilities under acceptances | | — | 319,992 |
| | | 33,193,125 | 33,666,528 |
| Allowances for loan losses | | (173,522) | (100,457) |
| | | 33,019,603 | 33,566,071 |
| **Other** | | | |
| Derivatives | 26 | 295,122 | 143,816 |
| Premises and equipment | 5 and 9 | 199,869 | 77,802 |
| Software and other intangible assets | 10 | 380,259 | 391,162 |
| Goodwill | 11 | 117,286 | 116,649 |
| Deferred tax assets | 20 | 62,216 | 37,045 |
| Other assets | 12 | 481,019 | 768,806 |
| | | 1,535,771 | 1,535,280 |
| | | $ 44,167,660 | $ 44,353,127 |
| **Liabilities and shareholders' equity** | | | |
| **Deposits** | 13 | | |
| Personal | | $ 18,796,150 | $ 19,747,260 |
| Business, banks and other | | 5,124,053 | 5,905,344 |
| | | 23,920,203 | 25,652,604 |
| **Other** | | | |
| Obligations related to securities sold short | | 3,020,709 | 2,618,147 |
| Obligations related to securities sold under repurchase agreements | | 2,411,649 | 2,558,883 |
| Acceptances | | — | 319,992 |
| Derivatives | 26 | 127,412 | 112,737 |
| Deferred tax liabilities | 20 | 55,333 | 53,102 |
| Other liabilities | 5, 14 and 30 | 1,487,174 | 1,207,567 |
| | | 7,102,277 | 6,870,428 |
| **Debt related to securitization activities** | 8, 15 | 10,184,497 | 8,913,333 |
| **Subordinated debt** | 16 | 349,442 | 349,101 |
| **Shareholders' equity** | | | |
| Preferred shares | 17 | 244,038 | 244,038 |
| Common shares | 17 | 1,159,488 | 1,139,193 |
| Retained earnings | | 1,152,973 | 1,161,668 |
| Accumulated other comprehensive income | | 52,215 | 20,947 |
| Share-based compensation reserve | 18 | 2,527 | 1,815 |
| | | 2,611,241 | 2,567,661 |
| | | $ 44,167,660 | $ 44,353,127 |

The accompanying notes are an integral part of the Consolidated Financial Statements.

(1) The Consolidated Balance Sheet as at October 31, 2020 reflects the adoption of the IFRS 16, *Leases*, new accounting standard as at November 1, 2019. Refer to Notes 2, 3 and 5 for further information. The comparative information has not been restated.

**Michael Mueller**
Chairman of the Board

**Rania Llewellyn**
President and Chief Executive Officer

## CONSOLIDATED STATEMENT OF INCOME[1]

| For the years ended October 31 (in thousands of Canadian dollars, except per share amounts) | Notes | 2020 | 2019 |
|---|---|---|---|
| **Interest and dividend income** | 27 | | |
| Loans | | $ 1,288,850 | $ 1,440,102 |
| Securities | | 57,798 | 76,562 |
| Deposits with banks | | 4,294 | 8,356 |
| Other, including derivatives | | 71,311 | 31,362 |
| | | 1,422,253 | 1,556,382 |
| **Interest expense** | 27 | | |
| Deposits | | 532,062 | 638,389 |
| Debt related to securitization activities | | 179,930 | 172,419 |
| Subordinated debt | | 15,222 | 15,214 |
| Other, including derivatives | 30 | 12,615 | 43,949 |
| | | 739,829 | 869,971 |
| **Net interest income** | | 682,424 | 686,411 |
| **Other income** | | | |
| Lending fees | | 62,595 | 61,459 |
| Fees and securities brokerage commissions | | 48,030 | 43,892 |
| Commissions from sales of mutual funds | | 42,985 | 42,892 |
| Service charges | | 33,733 | 42,033 |
| Income from financial instruments | 27 | 33,728 | 12,460 |
| Card service revenues | | 28,438 | 33,238 |
| Fees on investment accounts | | 16,350 | 18,231 |
| Insurance income, net | 28 | 11,148 | 13,941 |
| Other | 29 | 11,578 | 13,953 |
| | | 288,585 | 282,099 |
| **Total revenue** | | 971,009 | 968,510 |
| **Amortization of net premium on purchased financial instruments** | | 638 | 1,452 |
| **Provision for credit losses** | 7 | 116,300 | 44,400 |
| **Non-interest expenses** | | | |
| Salaries and employee benefits | 18, 19 | 370,535 | 357,396 |
| Premises and technology | 9 | 200,529 | 197,351 |
| Other | 10 | 144,434 | 159,067 |
| Restructuring charges | 31 | 18,289 | 12,679 |
| | | 733,787 | 726,493 |
| **Income before income taxes** | | 120,284 | 196,165 |
| Income taxes | 20 | 6,199 | 23,455 |
| **Net income** | | $ 114,085 | $ 172,710 |
| Preferred share dividends, including applicable taxes | | 12,466 | 12,966 |
| **Net income available to common shareholders** | | $ 101,619 | $ 159,744 |
| **Weighted-average number of common shares outstanding (in thousands)** | | | |
| Basic | | 42,910 | 42,310 |
| Diluted | | 42,929 | 42,356 |
| **Earnings per share** | 21 | | |
| Basic | | $ 2.37 | $ 3.78 |
| Diluted | | $ 2.37 | $ 3.77 |
| **Dividends declared per share** | | | |
| Common share | | $ 2.14 | $ 2.62 |
| Preferred share - Series 13 | | $ 1.03 | $ 1.06 |
| Preferred share - Series 15 | | $ 1.46 | $ 1.46 |

The accompanying notes are an integral part of the Consolidated Financial Statements.

(1) The Consolidated Statement of Income for the year ended October 31, 2020 reflects the adoption of the IFRS 16, *Leases*, new accounting standard as at November 1, 2019. Refer to Notes 2, 3 and 5 for further information. The comparative information has not been restated.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME[1]

| For the years ended October 31 (in thousands of Canadian dollars) | | 2020 | | 2019 |
|---|---|---|---|---|
| **Net income** | **$** | **114,085** | $ | 172,710 |
| **Other comprehensive income, net of income taxes** | | | | |
| Items that may subsequently be reclassified to the Statement of Income | | | | |
| Net change in debt securities at FVOCI | | | | |
| Unrealized net gains on debt securities at FVOCI | | **1,559** | | 2,327 |
| Reclassification of net gains on debt securities at FVOCI to net income | | **(103)** | | (378) |
| | | **1,456** | | 1,949 |
| Net change in value of derivatives designated as cash flow hedges | | **22,544** | | 33,293 |
| Net foreign currency translation adjustments | | | | |
| Net unrealized foreign currency translation gains on investments in foreign operations | | **5,005** | | 445 |
| Net gains (losses) on hedges of investments in foreign operations | | **2,263** | | (5,158) |
| | | **7,268** | | (4,713) |
| | | **31,268** | | 30,529 |
| Items that may not subsequently be reclassified to the Statement of Income | | | | |
| Remeasurement losses on employee benefit plans | | **(5,420)** | | (7,311) |
| Net losses on equity securities designated at FVOCI | | **(6,008)** | | (18,411) |
| | | **(11,428)** | | (25,722) |
| Total other comprehensive income, net of income taxes | | **19,840** | | 4,807 |
| **Comprehensive income** | **$** | **133,925** | $ | 177,517 |

### INCOME TAXES — OTHER COMPREHENSIVE INCOME

The following table shows income tax expense (recovery) for each component of other comprehensive income.

| For the years ended October 31 (in thousands of Canadian dollars) | | 2020 | | 2019 |
|---|---|---|---|---|
| Net change in debt securities at FVOCI | | | | |
| Unrealized net gains on debt securities at FVOCI | **$** | **543** | $ | 846 |
| Reclassification of net gains on debt securities at FVOCI to net income | | **(37)** | | (137) |
| | | **506** | | 709 |
| Net change in value of derivatives designated as cash flow hedges | | **8,094** | | 12,034 |
| Net foreign currency translation adjustments | | | | |
| Net gains (losses) on hedges of investments in foreign operations | | **(320)** | | — |
| Remeasurement losses on employee benefit plans | | **(2,005)** | | (2,666) |
| Net losses on equity securities designated at FVOCI | | **(2,169)** | | (6,648) |
| | **$** | **4,106** | $ | 3,429 |

The accompanying notes are an integral part of the Consolidated Financial Statements.

(1) The Consolidated Statement of Comprehensive Income for the year ended October 31, 2020 reflects the adoption of the IFRS 16, *Leases*, new accounting standard as at November 1, 2019. Refer to Notes 2, 3 and 5 for further information. The comparative information has not been restated.

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY[1]

For the year ended October 31, 2020

| | | | | Accumulated Other Comprehensive Income | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (in thousands of Canadian dollars) | Preferred shares (Note 17) | Common shares (Note 17) | Retained earnings | Debt securities at FVOCI | Cash flow hedges | Translation of foreign operations | Total | Share-based compen-sation reserve (Note 18) | Total shareholders' equity |
| Balance as at October 31, 2019 | $ 244,038 | $ 1,139,193 | $ 1,161,668 | $ 328 | $ 21,049 | (430) | $ 20,947 | $ 1,815 | $ 2,567,661 |
| Impact of adoption of IFRS 16, *Leases* (Notes 2 and 5) | | | (7,256) | | | | | | (7,256) |
| Balance as at November 1, 2019 | 244,038 | 1,139,193 | 1,154,412 | 328 | 21,049 | (430) | 20,947 | 1,815 | 2,560,405 |
| Net income | | | 114,085 | | | | | | 114,085 |
| Other comprehensive income, net of income taxes | | | | | | | | | |
| Unrealized net gains on debt securities at FVOCI | | | | 1,559 | | | 1,559 | | 1,559 |
| Reclassification of net gains on debt securities at FVOCI to net income | | | | (103) | | | (103) | | (103) |
| Net change in value of derivatives designated as cash flow hedges | | | | | 22,544 | | 22,544 | | 22,544 |
| Net unrealized foreign currency translation gains on investments in foreign operations | | | | | | 5,005 | 5,005 | | 5,005 |
| Net gains on hedges of investments in foreign operations | | | | | | 2,263 | 2,263 | | 2,263 |
| Remeasurement losses on employee benefit plans | | | (5,420) | | | | | | (5,420) |
| Net losses on equity securities designated at FVOCI | | | (6,008) | | | | | | (6,008) |
| Comprehensive income | | | 102,657 | 1,456 | 22,544 | 7,268 | 31,268 | | 133,925 |
| Issuance of share capital | | 20,295 | | | | | | | 20,295 |
| Share-based compensation | | | | | | | | 712 | 712 |
| Dividends | | | | | | | | | |
| Preferred shares, including applicable taxes | | | (12,466) | | | | | | (12,466) |
| Common shares | | | (91,630) | | | | | | (91,630) |
| Balance as at October 31, 2020 | $ 244,038 | $ 1,159,488 | $ 1,152,973 | $ 1,784 | $ 43,593 | $ 6,838 | $ 52,215 | $ 2,527 | $ 2,611,241 |

The accompanying notes are an integral part of the Consolidated Financial Statements.

(1) The Consolidated Statement of Changes in Shareholders' Equity for the year ended October 31, 2020 reflects the adoption of the IFRS 16, *Leases*, new accounting standard as at November 1, 2019. Refer to Notes 2, 3 and 5 for further information. The comparative information has not been restated.

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONT'D)

For the year ended October 31, 2019

| (in thousands of Canadian dollars) | Preferred shares (Note 17) | Common shares (Note 17) | Retained earnings | Accumulated Other Comprehensive Income: Debt securities at FVOCI | Available-for-sale securities | Cash flow hedges | Translation of foreign operations | Total | Share-based compensation reserve (Note 18) | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance as at November 1, 2018 | $ 244,038 | $ 1,115,416 | $ 1,138,383 | $ (1,621) | $ — | $ (12,244) | $ 4,283 | $ (9,582) | $ 268 | $ 2,488,523 |
| Net income | | | 172,710 | | | | | | | 172,710 |
| Other comprehensive income, net of income taxes | | | | | | | | | | |
| Unrealized net gains on debt securities at FVOCI | | | | 2,327 | | | | 2,327 | | 2,327 |
| Reclassification of net gains on debt securities at FVOCI to net income | | | | (378) | | | | (378) | | (378) |
| Net change in value of derivatives designated as cash flow hedges | | | | | | 33,293 | | 33,293 | | 33,293 |
| Net unrealized foreign currency translation gains on investments in foreign operations | | | | | | | 445 | 445 | | 445 |
| Net losses on hedges of investments in foreign operations | | | | | | | (5,158) | (5,158) | | (5,158) |
| Remeasurement losses on employee benefit plans | | | (7,311) | | | | | | | (7,311) |
| Net losses on equity securities designated at FVOCI | | | (18,411) | | | | | | | (18,411) |
| Comprehensive income | | | 146,988 | 1,949 | n/a | 33,293 | (4,713) | 30,529 | | 177,517 |
| Issuance of share capital | | 23,777 | | | | | | | | 23,777 |
| Share-based compensation | | | | | | | | | 1,547 | 1,547 |
| Dividends | | | | | | | | | | |
| Preferred shares, including applicable taxes | | | (12,966) | | | | | | | (12,966) |
| Common shares | | | (110,737) | | | | | | | (110,737) |
| Balance as at October 31, 2019 | $ 244,038 | $ 1,139,193 | $ 1,161,668 | $ 328 | n/a | $ 21,049 | $ (430) | $ 20,947 | $ 1815 | $ 2,567,661 |

The accompanying notes are an integral part of the Consolidated Financial Statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS[1]

| For the years ended October 31 (in thousands of Canadian dollars) | Notes | 2020 | 2019 |
|---|---|---|---|
| **Cash flows relating to operating activities** | | | |
| Net income | | $ 114,085 | $ 172,710 |
| Adjustments to determine net cash flows relating to operating activities: | | | |
| Provision for credit losses | 7 | 116,300 | 44,400 |
| Deferred income taxes | 20 | (17,881) | 14,172 |
| Depreciation of premises and equipment | 9 | 24,058 | 7,145 |
| Amortization of software and other intangible assets | 10 | 41,590 | 39,449 |
| Change in operating assets and liabilities: | | | |
| Loans | | 434,717 | 590,389 |
| Acceptances | | (319,992) | 123,216 |
| Securities at FVTPL | | 827,207 | (520,660) |
| Securities purchased under reverse repurchase agreements | | (601,943) | 1,114,213 |
| Accrued interest receivable | | 34,648 | (18,120) |
| Derivative assets | | (151,306) | (49,531) |
| Deposits | | (1,732,401) | (2,353,968) |
| Obligations related to securities sold short | | 402,562 | (390,519) |
| Obligations related to securities sold under repurchase agreements | | (147,234) | 43,060 |
| Accrued interest payable | | (13,469) | 29,389 |
| Derivative liabilities | | 14,675 | (172,755) |
| Debt related to securitization activities | | 1,271,164 | 1,125,580 |
| Other, net | | 401,897 | (68,269) |
| | | 698,677 | (270,099) |
| **Cash flows relating to financing activities** | | | |
| Payment of lease liabilities | | (18,553) | n/a |
| Net proceeds from issuance of common shares | 17 | 1,591 | 11 |
| Dividends | | (106,291) | (102,434) |
| | | (123,253) | (102,423) |
| **Cash flows relating to investing activities** | | | |
| Change in securities at amortized cost | | | |
| Acquisitions | | (3,495,790) | (3,070,698) |
| Proceeds on sale and at maturity | | 3,130,965 | 3,328,423 |
| Change in securities at FVOCI | | | |
| Acquisitions | | (243,517) | (610,427) |
| Proceeds on sale and at maturity | | 275,577 | 612,376 |
| Proceeds on sale of loan portfolios | 7, 8 | 54,376 | 105,366 |
| Additions to premises and equipment and software and other intangible assets | 9, 10 | (41,201) | (68,615) |
| Change in interest-bearing deposits with banks | | (280,284) | 51,340 |
| | | (599,874) | 347,765 |
| Effect of exchange rate changes on cash and non-interest-bearing deposits with banks | | 3,453 | (1,075) |
| Net change in cash and non-interest bearing deposits with banks | | (20,997) | (25,832) |
| Cash and non-interest bearing deposits with banks at beginning of period | | 90,658 | 116,490 |
| **Cash and non-interest bearing deposits with banks at end of period** | | $ 69,661 | $ 90,658 |
| **Supplemental disclosure about cash flows relating to operating activities:** | | | |
| Interest paid during the period | | $ 751,742 | $ 835,330 |
| Interest received during the period | | $ 1,416,663 | $ 1,519,846 |
| Dividends received during the period | | $ 14,935 | $ 15,732 |
| Income taxes paid (received) during the period | | $ (14,534) | $ 38,569 |

The accompanying notes are an integral part of the Consolidated Financial Statements.

(1) The Consolidated Statement of Cash Flows for the year ended October 31, 2020 reflects the adoption of the IFRS 16, *Leases*, new accounting standard as at November 1, 2019. Refer to Notes 2, 3 and 5 for further information. The comparative information has not been restated.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at October 31, 2020 and 2019
(All tabular amounts are in thousands of Canadian dollars, unless otherwise indicated)

## 1. GENERAL INFORMATION

Laurentian Bank of Canada (the Bank) provides financial services to its personal, business and institutional customers. The Bank operates primarily across Canada and in the United States. Refer to Note 32 for further details on the Bank's operating segments.

The Bank is the ultimate parent of the group. The Bank is a chartered bank under Schedule 1 of the Bank Act (Canada) and has its head office in Montreal, Canada, with a registered office in Toronto, Canada. The Bank's common shares (stock symbol: LB) are listed on the Toronto Stock Exchange.

The Consolidated Financial Statements for the year ended October 31, 2020 were approved for issuance by the Board of Directors on December 4, 2020.

## 2. BASIS OF PRESENTATION

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These Consolidated Financial Statements also comply with the Bank Act, which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada (OSFI), financial statements are to be prepared in accordance with IFRS.

Unless stated otherwise, the accounting policies described in Note 3, Summary of Significant Accounting Policies have been applied consistently to all periods presented.

These Consolidated Financial Statements were prepared under a historical cost basis, except for certain items carried at fair value as discussed in Note 3.

Unless otherwise indicated, all amounts are expressed in Canadian dollars, which is the Bank's presentation currency.

### 2.1 ACCOUNTING POLICY CHANGES

#### Leases (IFRS 16)

On November 1, 2019, the Bank adopted IFRS 16, *Leases* (IFRS 16) which replaced IAS 17, *Leases* and related interpretations. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. As a result of the application of IFRS 16, accounting policies were changed in the areas indicated hereafter in Note 3, and these new policies were applicable from November 1, 2019.

The Bank adopted IFRS 16 using the modified retrospective approach, under which the cumulative effect of the adoption was recognized in opening Retained Earnings as at November 1, 2019. Note 5 to these Consolidated Financial Statements shows the impacts of the adoption of IFRS 16 as at November 1, 2019. The comparative information was not restated as permitted by IFRS 16 and continues to be reported under IAS 17, Leases and related interpretations.

#### Interest Rate Benchmark Reform – Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7)

On November 1, 2019, the Bank early adopted amendments to IFRS 9, *Financial instruments* (IFRS 9), IAS 39, *Financial instruments: recognition and measurement* (IAS 39) and IFRS 7, *Financial instruments: disclosures* (IFRS 7). These amendments modify certain hedge accounting requirements to provide relief from the effect of uncertainty caused by the Interbank Offered Rates (IBOR) benchmark reform prior to the transition to alternative interest rates. Note 5 to these Consolidated Financial Statements provides additional information related to the adoption of these amendments, which had no significant impact on these Consolidated Financial Statements as at November 1, 2019 and for the year 2020.

## 2. BASIS OF PRESENTATION (CONT'D)

### 2.2 BASIS OF CONSOLIDATION

These Consolidated Financial Statements include the assets, liabilities and operating results of the Bank and all of the entities which it controls, after elimination of intercompany balances and transactions. The Bank controls an entity when it has the power to direct the activities of the entity which have the most significant impact on the entity's risks and/or returns, it is exposed to significant risks and/or returns arising from the entity, and it is able to use its power to affect the risks and/or returns to which it is exposed.

#### Subsidiaries

Subsidiaries are consolidated from the date the Bank obtains control and continue to be consolidated until the date when control ceases to exist. The financial statements of the Bank's subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

The subsidiaries of the Bank are listed in the table below.

| As at October 31 | 2020 |
| --- | --- |
| | Principal office address[1] |
| **Corporate name** | |
| B2B Bank | Toronto, Canada |
| B2B Bank Financial Services Inc. | Toronto, Canada |
| B2B Bank Securities Services Inc. | Toronto, Canada |
| B2B Bank Intermediary Services Inc | Toronto, Canada |
| B2B Trustco | Toronto, Canada |
| B2B Securitization Inc. | Toronto, Canada |
| B2B Securitization Limited Partnership[2] | Toronto, Canada |
| Laurentian Bank Insurance Inc. | Montreal, Canada |
| Laurentian Bank Securities Inc. | Montreal, Canada |
| Laurentian Capital (USA) Inc. | Montreal, Canada |
| Laurentian Trust of Canada Inc. | Montreal, Canada |
| LBC Capital Inc. | Burlington, Canada |
| LBEF Inc. | Burlington, Canada |
| LBEL Inc.[3] | Burlington, Canada |
| LBC Capital GP Inc. | Burlington, Canada |
| LBC Leasing Limited Partnership[4] | Burlington, Canada |
| Northpoint Commercial Finance Canada Inc. | Burlington, Canada |
| NCF Commercial Finance Holdings Inc. | Alpharetta, United States |
| Northpoint Commercial Finance LLC | Alpharetta, United States |
| LBC Financial Services Inc. | Montreal, Canada |
| LBC Finco Inc. | Montreal, Canada |
| LBC Investment Management Inc. | Montreal, Canada |
| V.R. Holding Insurance Company Ltd. | St. James, Barbados |
| Venture Reinsurance Company Ltd. | St. James, Barbados |
| VRH Canada Inc. | Montreal, Canada |
| LBC Tech Inc. | Toronto, Canada |
| LBC Trust | Montreal, Canada |
| NCF International Holding Kft | Budapest, Hungary |
| NCF International Kft | Budapest, Hungary |

(1) Each subsidiary is incorporated or organized under the laws of the country in which the principal office is located.
(2) B2B Bank holds 99.99% of the units of B2B Securitization Limited Partnership and B2B Securitization Inc. holds the remaining 0.01%.
(3) LBC Capital Inc. holds 85% of voting shares of LBEL Inc. and VRH Canada Inc. holds the remaining 15%.
(4) LBEL Inc. holds 99.99% of the units of LBC Leasing Limited Partnership and LBC Capital GP Inc. holds the remaining 0.01%.

## 2. BASIS OF PRESENTATION (CONT'D)

### Structured entities

Structured entities are consolidated when the substance of the relationship between the Bank and the structured entity indicates that the structured entity is controlled by the Bank. Structured entities may take the form of a corporation, trust or partnership. They are often created with legal arrangements that impose limits on the decision-making powers of their governing board, trustee, or management over the operations of the entity. When assessing whether the Bank has to consolidate a structured entity, three primary criteria are evaluated: whether the Bank has the power to direct the activities of the structured entity that have the most significant impact on the entity's risks and/or returns; whether the Bank is exposed to significant variable returns arising from the entity; and whether the Bank has the ability to use its power to affect the risks and/or returns to which it is exposed. The Bank consolidates two limited partnerships used for securitization purposes, as shown in the previous table.

### 2.3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In preparing these Consolidated Financial Statements, management is required to make significant judgments and subjective estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, expenses and related disclosures. Estimates made by management are based on historical experience and other assumptions that are believed to be reasonable.

Significant accounting judgments, estimates and assumptions have been made specifically in the following areas and discussed as noted in the Consolidated Financial Statements:

| | | | |
|---|---|---|---|
| Fair value of financial instruments | Notes 3 and 23 | Post-employment benefits | Notes 3 and 19 |
| Allowances for credit losses | Notes 3 and 7 | Income taxes | Notes 3 and 20 |
| Goodwill and other intangible assets | Notes 3, 10 and 11 | Provisions and contingent liabilities | Notes 3 and 30 |

In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of the items listed above, it is possible that the outcomes in future reporting periods could differ from those on which management's estimates are based. This could result in materially different estimates and judgments from those reached by management for the purposes of the Consolidated Financial Statements.

### COVID-19 impact on judgments, estimates and assumptions

The preparation of financial information requires the use of estimates and judgments about future economic conditions. The global pandemic related to an outbreak of a coronavirus (COVID-19) has amplified uncertainty on the assumptions used by management in making its judgments and estimates. The full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on the Canadian and U.S. economies and the Bank's business is highly uncertain and difficult to predict at this time. Accordingly, there is a higher level of uncertainty with respect to management's judgments and estimates.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 FINANCIAL INSTRUMENTS

**Classification and measurement of financial assets**

At initial recognition, all financial assets are recorded at fair value on the Consolidated Balance Sheet. After initial recognition, financial assets must be measured at: 1) amortized cost 2) FVOCI, or 3) FVTPL.

The Bank determines the classification of debt instruments based on the contractual cash flow characteristics of the financial assets and on the business model it uses to manage these financial assets, as described below. Equity instruments are required to be measured at FVTPL, except where the Bank has elected at initial recognition to irrevocably designate an equity investment, held for purposes other than trading, at FVOCI. Derivatives are required to be measured at FVTPL.

*Contractual cash flow characteristics*
In order to classify debt instruments, the Bank must determine whether the contractual cash flows associated with the debt instrument are solely payments of principal and interest (SPPI) on the principal amount outstanding. The principal is generally the fair value of the debt instrument at initial recognition. The interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time, and for other basic lending risks and costs as well as of a profit margin. If the Bank determines that the contractual cash flows associated with a debt instrument are not solely payments of principal and interest, the debt instrument must be classified as at FVTPL.

*Business model assessment*
The Bank determines its business models based on the objective under which each portfolio of financial assets is managed. The business model determination requires the use of judgment and consideration of all the relevant evidence available at the date of determination. In determining its business models, the Bank considers the following:

- Management's intent and strategic objectives and the operation of the stated policies in practice;
- The primary risks that affect the performance of the business model and how these risks are managed;
- How the performance of the portfolio is evaluated and reported to management; and
- The frequency and significance of financial asset sales in prior periods, the reasons for such sales and the expected future sales activities.

A financial asset portfolio is within a "hold to collect" business model when the Bank's primary objective is to hold these financial assets in order to collect contractual cash flows from them and not to sell them. When the Bank's objective is achieved both by collecting contractual cash flows and by selling the financial assets, the financial asset portfolio falls within a "hold to collect and sell" business model. In this type of business model, collecting contractual cash flows and selling financial assets are both integral components to achieving the Bank's objective for this financial asset portfolio. Financial assets are measured at FVTPL if they do not fall within either a "hold to collect" business model or a "hold to collect and sell" business model.

*Optional designations*
Under the fair value option, debt instruments that fall within a "hold to collect" or "hold to collect and sell" business model may be designated on a voluntary and irrevocable basis as at FVTPL provided that such designation:

- Eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the related gains and losses on different bases; or
- Pertains to an asset or liability that is managed and whose performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about such items is provided internally on that basis to the Bank's key management personnel; and
- Allows for reliable measurement of the fair value of the financial instruments designated at FVTPL.

As at October 31, 2020 and October 31, 2019, the Bank had not designated any debt instrument as at FVTPL.

In addition, it is permitted to irrevocably designate FVOCI, at initial recognition, an equity instrument that is not held for trading.

*Securities at amortized cost*
Securities at amortized cost include debt securities for which the contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding and that fall within a "hold to collect" business model. Securities at amortized cost are initially recorded at fair value on the settlement date on the Consolidated Balance Sheet, including direct and incremental transaction costs. Subsequently, they are measured at amortized cost using the effective interest rate method, net of allowances for expected credit losses. Interest income is recognized in the Consolidated Statement of Income using the effective interest rate method, including the amortization of transaction costs as well as premium or discounts over the security's expected life.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

*Securities at FVOCI*
Securities at FVOCI include: (i) debt securities for which the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding and that fall within a "hold to collect and sell" business model and (ii) equity securities designated at FVOCI with no subsequent reclassification of gains and losses to net income.

The Bank initially recognizes securities at FVOCI on the Consolidated Balance Sheet at the settlement date, including direct and incremental transaction costs.

For debt securities at FVOCI, unrealized gains and losses are subsequently recognized, net of interest income calculated on the instrument's amortized cost, expected credit losses and income taxes, and provided that they are not hedged by derivative financial instruments in a fair value hedging relationship, in Other comprehensive income. When the securities are sold, realized gains or losses, determined on an average cost basis, are reclassified to Income from financial instruments in the Consolidated Statement of Income. Interest income is recognized in the Consolidated Statement of Income using the effective interest rate method, including the amortization of transaction costs, as well as premium or discounts over the security's expected life.

For equity securities designated at FVOCI, subsequent unrealized gains and losses are presented, net of income taxes, in Other comprehensive income with no subsequent reclassification of realized gains and losses to net income. Dividend income for these instruments is recorded in interest income in the Consolidated Statement of Income.

*Securities at FVTPL*
Securities at FVTPL include (i) debt securities for which the business model is neither to hold to collect nor hold to collect and sell, (ii) debt securities for which the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding, (iii) debt securities designated at FVTPL under the fair value option, (iv) equity securities held for trading, and (v) equity securities other than those designated at FVOCI.

Securities at FVTPL are initially recorded at fair value on the settlement date on the Consolidated Balance Sheet. Transaction costs and other fees associated with financial instruments at FVTPL are expensed as incurred. Subsequently, these securities are measured at fair value and the realized and unrealized gains and losses are recognized in the Consolidated Statement of Income under Income from financial instruments. The amortization of premiums and discounts, calculated using the effective interest rate method, as well as interest income and dividend income, are recognized in Interest income in the Consolidated Statement of Income.

*Loans at amortized cost*
Loans at amortized cost include loans originated or purchased by the Bank that are not classified as measured at FVTPL or designated at FVTPL under the fair value option. These loans are held within a business model whose objective is to collect cash flows that are solely payments of principal and interest on the principal amount outstanding. Loans originated by the Bank are recognized at the settlement date on the Consolidated Balance Sheet. Loans are initially measured at fair value plus directly attributable costs and are subsequently measured at amortized cost using the effective interest rate method. Loans are presented net of allowances for credit losses on the Consolidated Balance Sheet.

Interest income is recognized on loans using the effective interest rate, calculated over the loan's expected life. Commissions received, origination fees and costs, as well as other transaction costs are considered to be adjustments to the loan yield and are recorded in interest income over the term of the loans. Fees received for loan prepayments are included in interest income for residential mortgage loans and other income for commercial mortgage loans upon prepayment.

*Loans at FVOCI*
Loans at FVOCI include loans originated or purchased by the Bank that are not classified as measured at FVTPL or designated at FVTPL under the fair value option. These loans are held within a "hold to collect and sell" business model business model whose objective is to collect cash flows that are solely payments of principal and interest on the principal amount outstanding and to sell them to generate a profit. Loans originated by the Bank are recognized at the settlement date on the Consolidated Balance Sheet. Loans are initially measured at fair value plus directly attributable costs. Interest income on loans at FVOCI is recorded using the effective interest rate method in Interest income in the Consolidated Statement of Income. Changes in the fair value of loans classified as at FVOCI are presented, net of income taxes, in Other comprehensive income. When the securities are sold, realized gains or losses, are reclassified to Other Income.

As at October 31, 2020 and October 31, 2019, the Bank had no loans at FVOCI.

*Loans at FVTPL*
Loans at FVTPL include loans designated at FVTPL under the fair value option and loans for which the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding. These loans are initially recognized at fair value on the Consolidated Balance Sheet excluding any transaction costs which are recorded in Lending Fees in the Consolidated Statement of Income. Interest income on loans at FVTPL is recorded in Interest income in the Consolidated Statement of Income. Changes in the fair value of loans classified as at FVTPL and loans designated at FVTPL under the fair value option are recognized in Income from financial instruments.

As at October 31, 2020 and October 31, 2019, the Bank had no loans at FVTPL.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### Classification and measurement of financial liabilities

At initial recognition, all financial liabilities are recorded at fair value at the settlement date on the Consolidated Balance Sheet. After initial recognition, financial liabilities must be measured as: 1) at amortized cost or 2) at FVTPL.

*Financial liabilities at amortized cost*
Financial liabilities at amortized cost include deposits, obligations related to securities sold under repurchase agreements, acceptances, subordinated debt, debt related to securitization activities and other liabilities. Financial liabilities at amortized cost are initially recognized at fair value including any transaction costs and subsequently measured at amortized cost. Interest expense on financial liabilities at amortized cost is recognized in the Consolidated Statement of Income, using the effective interest rate method.

*Financial liabilities at FVTPL*
Financial liabilities at FVTPL are composed of financial instruments held-for-trading including obligations related to securities sold short, derivatives not designated in hedge relationships and financial liabilities designated by the Bank as at FVTPL under the fair value option upon initial recognition. Financial liabilities at FVTPL are initially recorded at fair value at the settlement date on the Consolidated Balance Sheet. Subsequently, these financial instruments are remeasured at fair value and the realized and unrealized gains and losses are immediately recognized in the Consolidated Statement of Income under Income from financial instruments. For financial liabilities designated by the Bank as at FVTPL under the fair value option, changes in the fair value which are attributable to changes in own credit risk are presented in other comprehensive income rather than in the Consolidated Statement of Income, unless it creates a mismatch. Interest expense paid is recognized in the Consolidated Statement of Income. Transaction costs and other fees associated with financial instruments at FVTPL are expensed as incurred.

As at October 31, 2020 and October 31, 2019, the Bank had not designated any financial liabilities at FVTPL.

### Reclassification of financial assets and financial liabilities

Financial assets and financial liabilities are not reclassified subsequent to their initial recognition, except for financial assets for which the Bank changes its business model for managing financial assets. The reclassification is applied prospectively from the reclassification date. Such reclassifications of financial assets are expected to be rare in practice.

### Impairment of financial assets

At the end of each reporting period, the Bank applies a three-stage impairment approach to measure the expected credit losses (ECL) on all debt instruments measured at amortized cost or at FVOCI, on loan commitments and financial guarantees that are not measured at fair value and on lease receivables. The ECL model is forward looking. Measurement of ECLs at each reporting period reflects reasonable and supportable information about past events, current conditions, and forecasts of future events and economic conditions.

For accounts receivables, the Bank applies a simplified impairment approach which does not track the changes in credit risk, but instead recognizes an allowance based on lifetime ECL at each reporting date from the date of initial recognition.

*Determining the stage*
The ECL three-stage impairment approach is based on the change in the credit quality of financial assets since initial recognition. If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and an allowance for credit losses that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded. When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and an allowance for credit losses that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to Stage 1, i.e. recognition of 12-month expected credit losses. When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the impaired financial asset is migrated to stage 3, an allowance equal to the lifetime expected losses continues to be recorded or the financial asset is written off. Interest income is calculated on the gross carrying amount of the financial assets in stages 1 and 2 and on the net carrying amount of the financial assets in stage 3.

*Assessment of significant increase in credit risk*
In determining whether credit risk has increased significantly, the Bank uses an internal credit risk grading system and external risk ratings. To assess whether the credit risk of a financial instrument has increased significantly, the 12-month probability of default (PD) at the reporting date is compared with the 12-month PD at the date of initial recognition, and reasonable and supportable information indicative of significant increases in credit risk since initial recognition is considered. The Bank includes relative and absolute thresholds in the definition of significant increase in credit risk and a backstop of 30 days past due. All financial instruments that are 30 days past due are migrated to stage 2 even if other metrics do not indicate that a significant increase in credit risk has occurred. The assessment of a significant increase in credit risk requires significant judgment.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

*Measurement of expected credit losses*
ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument, and reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions is considered. The estimation and application of forward-looking information requires significant judgment. The cash shortfall is the difference between all contractual cash flows owed to the Bank and all the cash flows that the Bank expects to receive.

The measurement of ECLs is based primarily on the product of the instrument's PD, loss given default (LGD), and exposure at default (EAD). Forward-looking macroeconomic factors such as interest rates, unemployment rates, gross domestic product (GDP) forecasts and housing price indices are incorporated into the risk parameters. The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. The Bank incorporates three forward-looking macroeconomic scenarios in its ECL calculation process: a base scenario, an upside scenario, and a downside scenario. Probability-weights are attributed to each scenario. The scenarios and probability weights are reassessed quarterly and subject to management review. The Bank applies experienced credit judgment to adjust the modeled ECL results when it becomes evident that known or expected risk factors and information were not considered in the credit risk rating and modeling process.

The allowance for credit losses is sensitive to the inputs used in models including macroeconomic variables used in the forward-looking scenarios and their respective weights. As the impact of the COVID-19 pandemic, including government and/or regulatory responses to the outbreak, on the U.S. and Canadian economies remains highly uncertain, it is difficult to predict whether the increase in expected credit losses will materialize into a significant level of write-offs and whether the Bank will recognize additional increases in expected credit losses in subsequent periods.

ECLs for all financial instruments are recognized in provisions for credit losses in the Consolidated Statement of Income. In the case of debt instruments measured at FVOCI, ECLs are recognized in provisions for credit losses in the Consolidated Statement of Income, and a corresponding amount is recognized in Other comprehensive income with no reduction in the carrying amount of the asset on the Consolidated Balance Sheet. As for debt instruments measured at amortized cost, they are presented net of the related allowance for credit losses on the Consolidated Balance Sheet. Allowances for credit losses for off-balance-sheet credit exposures that are not measured at fair value are included in other liabilities on the Consolidated Balance Sheet.

*Purchased or originated credit-impaired financial assets*
On initial recognition of a financial asset, the Bank determines whether the asset is credit-impaired. For financial assets that are credit-impaired upon purchase or origination, in subsequent reporting periods the Bank recognizes only the cumulative changes in lifetime expected credit losses since initial recognition as an allowance for credit losses. The Bank recognizes changes in ECLs in provision for credit losses in the Consolidated Statement of Income, even if the lifetime ECLs are less than ECLs that were included in the estimated cash flows on initial recognition.

*Default*
The definition of default used by the Bank to measure ECLs and transfer financial instruments between stages is consistent with the definition of default used for internal credit risk management purposes. The Bank considers a financial asset as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred or when contractual payments are 90 days past due.

*Write-offs*
The Bank writes off an impaired financial asset and its related allowance for credit losses in whole or in part when it considers the probability of recovery to be non-existent and when all guarantees and other remedies available to the Bank have been exhausted or if the borrower is bankrupt or winding up and balances owing are not likely to be recovered. For credit cards, the balances and related allowance for credit losses are generally written off when payment is 180 days past due.

*Modified loans*
The original terms of a financial asset may be renegotiated or otherwise modified, resulting in changes to the contractual terms of the financial asset that affect the contractual cash flows. The treatment of such modifications depends on the nature and extent of changes. Modifications which are performed for credit reasons, primarily related to troubled debt restructurings, are generally treated as modifications of the original financial asset and do not result in derecognition. Concessions may include payment deferrals, extension of amortization periods, rate reductions, principal forgiveness, debt consolidation, forbearance and other modifications and are intended to minimize the economic loss and to avoid foreclosure or repossession of collateral.

Substantial modifications which are performed for other than credit reasons are generally considered to be an expiry of the original cash flows; accordingly, such renegotiations are treated as a derecognition of the original financial asset and recognition of a new financial asset based on the new contractual terms.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

If the Bank determines that a modification does not result in derecognition, the financial asset continues to be subject to the same assessments for significant increase in credit risk relative to initial recognition and credit-impairment, as described above. Expected cash flows arising from the modified contractual terms are considered when calculating the ECL for the modified asset. For loans that were modified while having lifetime ECLs, such loans can revert to having twelve-month ECLs if the borrower's financial condition that led to it being identified as credit-impaired are no longer present and relate objectively to an event occurring after the original credit-impairment was recognized.

If a modification of terms results in derecognition of the original financial asset and recognition of the new financial asset, the new financial asset will generally be recorded in Stage 1, unless it is determined to be credit-impaired at the time of the renegotiation. For the purposes of assessing for significant increases in credit risk, the date of initial recognition for the new financial asset is the date of the modification.

### Securities purchased under reverse repurchase agreements and obligations related to securities sold under repurchase agreements

The Bank enters into short-term purchases of securities under agreements to resell (reverse repurchase agreements) as well as short-term sales of securities under agreements to repurchase (repurchase agreements) at predetermined prices and dates. Given the low risk transfer associated with these purchases and sales, these agreements are treated as collateralized lending and borrowing.

Securities purchased under agreements to resell are not recognized as securities on the Consolidated Balance Sheet. An asset corresponding to the consideration paid for the securities is recognized in securities purchased under reverse repurchase agreements. Subsequently, the agreements are measured at amortized cost using the effective interest method. Interest income is allocated over the expected term of the agreement by applying the effective interest rate to the carrying amount of the asset.

Securities sold under agreements to repurchase at a specified future date are not derecognized from the Consolidated Balance Sheet. The consideration received is recognized in the Consolidated Balance Sheet and a corresponding liability is recognized in obligations related to securities sold under repurchase agreements. Subsequently, the agreements are measured at amortized cost using the effective interest method. Interest expense is allocated over the expected term of the agreement by applying the effective interest rate to the carrying amount of the liability.

### Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralized by securities or cash. The transfer of the securities to counterparties is only reflected on the Consolidated Balance Sheet if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

### Securities sold short

If securities borrowed or purchased under agreements to resell are subsequently sold to third parties, the obligation to deliver the securities is recorded as a short sale within obligations related to securities sold short. These short sales are classified as held-for-trading liabilities and measured at FVTPL with any gains or losses included, depending on the nature of the transaction, in other income under Income from financial instruments.

### Derecognition of financial assets

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire or when the contractual rights to the cash flows from the financial asset and substantially all risks and rewards of ownership of the asset are transferred to a third party. When a financial asset is derecognized, a gain or a loss is recognized in the Consolidated Statement of Income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received.

*Securitization*

The Bank regularly transfers pools of residential mortgages under securitization programs. When the Bank retains substantially all the risks and rewards related to these assets, these transactions do not result in derecognition of the assets from the Bank's Consolidated Balance Sheet. As such, securitized residential mortgages continue to be recognized in the Consolidated Balance Sheet. In addition, these transactions result in the recognition of a debt related to securitization activities when cash is received.

In certain securitization transactions, the Bank does not retain substantially all the risks and rewards related to transferred pools of residential mortgages. In such transactions, the Bank has a continuing involvement in the securitized asset that is limited to retained rights in future excess interests and the liability associated with servicing these assets. When a securitized asset is derecognized, the related loans are removed from the Consolidated Balance Sheet and a gain or loss is recognized in the Consolidated Statement of Income under Other income. The securitization retained rights in future excess interests is classified at amortized cost and reported as part of Other assets. The servicing liability is reported as part of Other liabilities. Revenues related to retained interests are recognized in the Consolidated Statement of Income under Income from financial instruments.

The Bank also enters into transactions with other structured entities as part of securitization programs for finance lease receivables and personal loans. Structured entities are consolidated if the Bank controls the entity. In assessing control, the Bank evaluates the substance of the relationship, its right or exposure to variable returns and the ability to exercise power to affect the returns.

Refer to Notes 8 and 15 for further details.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### Acceptances and customers' liabilities under acceptances

Acceptances represent an obligation for the Bank with respect to short-term negotiable instruments issued by the Bank's customers to third parties and guaranteed by the Bank. Acceptances are measured at amortized cost using the effective interest method. The recourse against the customer in the event that these obligations give rise to a cash outlay is reported as a corresponding asset measured at amortized cost using the effective interest method. Commissions earned are recorded in other income in the Consolidated Statement of Income.

### Derivatives and hedges

Derivatives are primarily used to manage the Bank's exposure to interest rate and currency risks and, occasionally, in trading activities or to serve the needs of customers.

All derivatives are measured at fair value in other assets or liabilities, including derivatives embedded in financial instruments or other contracts that are not closely related to the financial instrument or to the host contract. Changes in fair value of derivatives are immediately recognized in the Consolidated Statement of Income under Income from financial instruments, except for derivatives designated as cash flow hedges and net investment hedges as described below. Interest income and expense related to derivatives is recognized in Net interest income in the Consolidated Statement of Income.

*Hedge accounting*

The Bank elected not to apply the IFRS 9 hedge accounting requirements as at November 1, 2018 and continues to apply the IAS 39 requirements. Information provided in Note 26 for the years ended October 31, 2020 and 2019 reflects the disclosure requirements of IFRS 7, *Financial Instruments: Disclosures*.

The purpose of a hedging transaction is to modify the Bank's exposure to one or more risks by creating an offset between changes in the fair value of, or the cash flows attributable to, the hedged item and the hedging instrument. Hedge accounting ensures that offsetting gains, losses, revenues and expenses are recognized in the Consolidated Statement of Income in the same period or periods.

Where hedge accounting can be applied, the Bank designates and formally documents each hedging relationship, at its inception, by detailing the risk management objective, the hedging strategy, the item being hedged, the related hedging instrument, and the method for assessing the effectiveness or ineffectiveness of the hedging relationship. Hedge accounting is deemed appropriate where the derivative is highly effective in offsetting changes in the hedged item's fair value attributed to the hedged risk, both at the hedge's inception and on an ongoing basis. Effectiveness is assessed every month using statistical regression models.

*Fair value hedges*

Fair value hedge transactions predominantly use interest rate swaps to hedge changes in fair value of assets, liabilities or firm commitments.

For these hedging relationships, the changes in the hedged item's fair value attributable to the hedged risk are recognized in Income from financial instruments on the Consolidated Statement of Income. A corresponding adjustment to the carrying amount of the hedged item in the Consolidated Balance Sheet is also recorded, except for hedges of certain equity securities, where the adjustment is recognized in accumulated other comprehensive income. Changes in fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in fair value of the hedging derivative.

When the hedging relationship ceases to be effective or the hedging instrument is sold or terminated early, hedge accounting is discontinued prospectively. The hedged item is no longer adjusted to reflect changes in fair value and the cumulative adjustment with respect to the effective portion of gains and losses attributable to the hedged risk are amortized using the effective interest rate method and recognized in net interest income over the remaining life of the hedged item. Hedge accounting is also discontinued on the sale or early termination of the hedged item, whereupon the cumulative adjustment to the hedged item's carrying amount is immediately recognized in Other income.

*Cash flow hedges*

Cash flow hedge transactions predominantly use interest rate swaps and total return swaps to hedge the variability in cash flows related to a variable rate asset or liability.

For these hedging relationships, the changes in fair value related to the effective portion of the hedge are recognized in other comprehensive income. Changes in fair value related to the ineffective portion of the hedge are immediately recognized in the Consolidated Statement of Income. Changes in fair value recognized in other comprehensive income are reclassified in the Consolidated Statement of Income under Net interest income or Salaries and employee benefits, depending on the hedged item, in the periods during which the cash flows comprising the hedged item affect income.

When the hedging relationship ceases to be effective or the hedging instrument is sold or terminated early, hedge accounting is discontinued prospectively. Changes in fair value recognized in other comprehensive income in respect of a cash flow hedging relationship that ceases to be effective or for which the hedging instrument is sold or terminated early are reclassified in the Consolidated Statement of Income under Net interest income or Salaries and employee benefits, depending on the hedged item, in the periods during which the cash flows comprising the hedged item affect income. Hedge accounting is also discontinued on the sale or early termination of the hedged item, whereupon the changes in fair value recognized in accumulated other comprehensive income are immediately recognized in other income.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

*Net investment hedges*
Cross currency swaps are used to hedge changes in the fair value of the net investment in foreign operations with a functional currency other than the Canadian dollar.

For these hedging relationships, the changes in fair value related to the effective portion of the hedge are recognized in other comprehensive income. Changes in fair value related to the ineffective portion of the hedge are immediately recognized in the Consolidated Statement of Income under Other income. Upon disposal or partial disposal of the net investment in a foreign operation, the related proportion of accumulated changes in fair value previously recognized in other comprehensive income are reclassified in the Consolidated Statement of Income under Other income.

### Deposits

Deposits are initially measured at fair value, net of directly attributable transaction costs incurred. Subsequently, they are measured at amortized cost using the effective interest method. Interest expense is allocated over the expected term of the deposit by applying the effective interest rate to the carrying amount of the liability. Commissions paid and other fees are recorded in interest expense over the term of the deposits. Deposits are presented net of unamortized commissions and other fees on the Consolidated Balance Sheet.

*Indexed deposit contracts*
Certain personal deposit obligations, such as equity-linked guaranteed investment certificates where the deposit obligation varies according to the performance of certain stock market indexes, may be subject to a guaranteed minimum redemption amount, such as the obligation to return the investor's initial investment at maturity. These obligations include an embedded derivative instrument that is accounted for separately and is presented in the Consolidated Balance Sheet under Derivatives.

### Debt related to securitization activities

Debt related to securitization activities is initially measured at fair value net of directly attributable transaction costs incurred. Subsequently, the debt is measured at amortized cost using the effective interest rate method. Interest expense is allocated over the expected term of the borrowing by applying the effective interest rate to the carrying amount of the liability.

### Subordinated debt

Subordinated debt is a direct unsecured obligation of the Bank and is subordinated in right of payment to the claims of depositors and certain other creditors of the Bank. Subordinated debt is initially measured at fair value net of directly attributable transaction costs incurred. Subsequently, the debt is measured at amortized cost using the effective interest method. Interest expense is allocated over the expected term of the borrowing by applying the effective interest rate to the carrying amount of the liability.

### Measuring the fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions.

The fair value of a financial instrument on initial recognition is normally the transaction price, that is, the fair value of the consideration given or received. In certain circumstances, the initial fair value may be based on other observable market transactions for the same instrument or on a valuation technique.

Subsequent to initial recognition, the fair value of financial instruments is best evidenced by quoted prices in active markets when available. This fair value is based on the quoted price within the bid-offer prices that is most representative of fair value in the circumstances. Otherwise, fair value is measured using valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Determining which valuation technique and inputs to apply requires judgment. Valuation techniques include cash flow discounting, comparison with current market prices for financial instruments with similar characteristics and risk profiles and option pricing models. The inputs, among other things, include contractual prices of the underlying instruments, yield curves and volatility factors. The valuations may also be adjusted to reflect the uncertainty in these parameters. In particular, valuation adjustments may be made with respect to the liquidity or counterparty credit risk of financial instruments that have no available quoted prices in active markets. Fair value reflects market conditions on a given date and for this reason cannot be representative of future fair values.

### Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the Consolidated Balance Sheet when the Bank currently has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously. In all other situations, financial assets and liabilities are presented on a gross basis.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 3.2 LEASES

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the contract. The 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, even if that right is not explicitly specified in an arrangement.

The Bank adopted IFRS 16 on November 1, 2019. The comparative information was not restated and continues to be reported under IAS 17. Refer to the Note 5 for the impact on adoption of IFRS 16.

#### The Bank as a lessor

The Bank provides leasing solutions to business customers.

*Finance leases*
Leases in which the Bank transfers substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. Assets held under a finance lease are presented as a receivable on the line item Commercial loans in the Consolidated Balance Sheet.

Finance lease receivables are initially recorded at an amount equal to the net investment in the lease at the inception of the lease. This corresponds to the aggregate minimum lease payments receivable plus any unguaranteed residual value accruing to the Bank, discounted at the interest rate implicit in the lease. Finance lease receivables are subsequently recorded at an amount equal to the net investment in the lease at the reporting date, net of allowances for loan losses. Interest income is recognized based on a pattern reflecting a constant periodic rate of return on the Bank's net investment outstanding in respect of the finance lease. Commissions received, origination fees and costs, as well as other transaction costs in respect of finance leases are considered to be adjustments to the yield and are recorded in interest income over the term of the lease. For derecognition and impairment of finance lease receivables, the Bank applies accounting policies applicable to financial instruments described in Section 3.1.

*Operating leases*
Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. The leased assets are classified in the balance sheet in other assets and are carried at cost less accumulated depreciation, which takes into account their estimated residual value. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Rental income arising from operating leases is accounted for on a straight-line basis over the lease term and is included in Other income in the Consolidated Statement of Income.

#### The Bank as a lessee

The Bank enters into lease agreements as a lessee for its premises.

*Policy applicable as of November 1, 2019*
On the lease commencement date, a right-of-use asset and a lease liability are recognized. The right-of-use asset is initially measured at cost, which corresponds to the value of the lease liability adjusted for any lease payment made at or before the commencement date, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term.

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 Bank's incremental borrowing rate for a similar asset. Lease payments included in the measurement of the lease liability comprise fixed payments, reduced by any incentive receivables, and exclude operational costs and variable lease payments. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

Short-term leases are leases with a lease term of 12 months or less. For short-term leases and leases of low-value assets. The Bank records the lease payments as an operating expense on a straight-line basis over the lease term.

The Bank presents right-of-use assets in Premises and equipment and lease liabilities in Other liabilities on the Consolidated Balance Sheet. The interest expense is presented under Interest expense, Other and the depreciation is presented under the Premises and technology line item on the Consolidated Statement of Income.

*Policy applicable before November 1, 2019*
Leases which did not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items were operating leases. Payments made under operating leases were recognized on a straight-line basis over the lease term and reported in Non-interest expenses under Premises and technology.

### 3.3 REVENUE FROM CONTRACTS WITH CUSTOMERS

The Bank provides banking services to its customers. Revenue from contracts with customers is recognized when control of services provided by the Bank is transferred to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services. Revenue associated with the rendering of services is recognized by reference to the satisfaction of performance obligations at the end of the reporting period. The Bank has generally concluded that it is the principal in its revenue arrangements, except for interchange income described below, because it typically controls the services before transferring them to the customer.

The Bank's fee and commission income from services, including those where performance obligations are satisfied over time, are as follow:

#### Lending fees

Lending fees include commitment fees, stand-by fees and letter of credit fees. These fees are recognized in income over the period in which the service is provided. Lending fees also include fees to guarantee acceptances issued by our customers, which are recognized over the term of the acceptances.

#### Commissions from sales of mutual funds

Commissions from sales of mutual funds mainly include trailer commissions. Trailer commissions are recognized over time and are generally calculated based on the average daily net asset value of the funds during the period.

#### Service charges

Service charges are earned on personal and commercial deposit accounts and consist of account fees and transaction-based service charges. Account fees relate to account maintenance activities and are recognized in income over the period in which the service is provided. Transaction-based service charges are recognized as earned at a point in time when the transaction is complete.

#### Fees and securities brokerage commissions

Fees and securities brokerage commissions mainly include commission fees and investment banking fees. Commission fees include sales, trailer and brokerage commissions. Sales and brokerage commissions are generally recognized at a point in time when the transaction is executed. Trailer commissions are recognized over time and are generally calculated based on the average daily net asset value of the fund during the period. Investment banking fees include advisory fees and underwriting fees and are generally recognized at a point in time as income upon successful completion of the engagement.

#### Card service revenues

Card service revenues include interchange income, as well as card fees such as annual and transactional fees. The Bank also offers credit card loyalty points programs which affect the timing of recognition of card service revenues.

*Interchange income*
Interchange income is recognized at a point in time when the transaction is authorized and funded. The Bank is acting as an agent in these arrangements.

When another party is involved in providing services to its customer, the Bank determines whether it is a principal or an agent in these transactions by evaluating the nature of its promise to the customer. The Bank is a principal and records revenue on a gross basis if it controls the promised services before transferring them to the customer. However, if the Bank's role is only to arrange for another entity to provide the services, then the Bank is an agent and will record revenue at the net amount that it retains for its agency services.

*Card fees*
Card fees are recognized as earned at the transaction date with the exception of annual fees, which are recognized over a twelve-month period.

*Credit card loyalty points programs*
The Bank offers credit card loyalty points programs, which allow customers to accumulate points that can be redeemed for free products or services. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognized as a contract liability until the points are redeemed. Revenue is recognized upon redemption of products or services by the customer.

When estimating the stand-alone selling price of the loyalty points, the Bank considers the monetary value assigned to the loyalty points and the likelihood that the customer will redeem the points. In estimating the value of the points issued, the Bank considers the mix of products that will be available in the future in exchange for loyalty points and customers' preferences. In estimating the redemption rate, the Bank considers breakage which represents the portion of the points issued that will never be redeemed. The Bank applies judgment in its estimation of breakage using customers' historical redemption patterns as the main input. The Bank updates its estimates of the points that will be redeemed on a monthly basis and any adjustments to the contract liability balance are charged against revenue.

As points issued under the programs do not expire, estimates of the stand-alone selling price are subject to significant uncertainty. Any significant changes in customers' redemption patterns will impact the estimated redemption rate.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### Fees on investment accounts

Fees from investment accounts are earned on personal investment accounts under administration and consist of account fees and transaction-based service charges. Account fees relate to account maintenance activities and are recognized in income over the period in which the service is provided. Transaction-based service charges are recognized as earned at a point in time when the transaction is complete.

### Contract balances

*Accounts receivables*
A receivable represents the Bank's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). The timing of payment of accounts receivable is short term after the satisfaction of the performance obligation. Accounts receivables are measured at amortized cost and included in the Other assets line item.

*Contract liabilities*
A contract liability is the obligation to transfer goods or services to a customer for which the Bank has received consideration from the customer. If a customer pays consideration before the Bank transfers services to the customer, a contract liability is recognized when the payment is made. Contract liabilities are recognized as revenue when the Bank performs under the contract. Contract liabilities are included in the Other liabilities line item.

### 3.4 BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. At the date of acquisition, the purchase price is measured as the aggregate of the fair value of the consideration transferred and includes the impact of related hedges. Acquisition-related costs are recognized directly in net income, under Costs related to business combinations in the period they are incurred. When the Bank acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual term, economic circumstances and market conditions at the acquisition date.

At the acquisition date, the identifiable assets acquired and liabilities assumed of the acquiree, as well as any contingent consideration to be assumed or received by the Bank, are recognized at their estimated fair value. The excess of the purchase price over the fair value of the net identifiable assets acquired is recorded as goodwill in the balance sheet, while any excess of the fair value of the net identifiable assets over the purchase price is recorded in net income as a gain on acquisition. A day-one gain resulting from the revaluation of purchased financial instruments mainly represents the favourable effect of the discount or premium to reflect current market rates and is amortized in net income over the estimated remaining term of the purchased financial instruments. Subsequent changes in the fair value of a contingent consideration are recorded in net income.

Valuation of the identifiable assets and liabilities of the acquiree upon initial recognition are based on a number of assumptions determined by management such as estimates of future cash flows and discount rates as well as contractual provisions. Changes in assumptions could have had a significant impact on the recognized amount of goodwill or gain arising on acquisition.

### Purchased financial assets and assumed financial liabilities

The fair value estimate of purchased financial assets and assumed financial liabilities reflects the interest rate premium or discount resulting from the difference between the contractual rates and prevailing market interest rates for financial instruments with similar terms and conditions, as well as the expected credit losses as of the acquisition date. Subsequently, purchased loans and finance lease receivables are recorded at amortized cost using the effective interest method and are subject to impairment assessment, consistent with the Bank's methodology for allowances for credit losses.

### Impairment of goodwill

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash-generating units (CGUs), which are expected to benefit from the synergies of the combination. Goodwill is monitored for internal management purposes at the operating segment level.

Goodwill is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired, by comparing the recoverable amount of the CGU with its carrying amount. The recoverable amount of the CGU is the greater of the value in use and its fair value less cost of disposal. If the recoverable amount of the CGU is less than its carrying value, an impairment loss is charged to income. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU proportionally based on the carrying amount of each asset. Impairment losses on goodwill are charged to income in the period they are incurred and are not reversed.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Management uses a number of significant estimates, including projected net income growth rates, future cash flows, the number of years used in the cash flow model and the discount rate of future cash flows to determine the recoverable amount of the CGU. Management considers these estimates to be reasonable and consistent with the Bank's financial objectives. They reflect management's best estimates but include inherent uncertainties that are not under its control. Changes made to one or any of these estimates may significantly impact the calculation of the recoverable amount and the resulting impairment charge. The key assumptions used to determine the recoverable amount for the different CGUs are disclosed and further explained in Notes 10 and 11.

### 3.5 PREMISES AND EQUIPMENT

Premises and equipment are recorded at cost including expenditure that is directly attributable to the acquisition of the items, less accumulated depreciation and impairment losses. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets.

#### Depreciation

Depreciation begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation is calculated using the straight-line method to write down the cost of premises and equipment to their residual values over their estimated useful lives. Depreciation of premises and equipment is recorded in the Consolidated Statement of Income under the Premises and technology line item. Land is not depreciated. The estimated useful lives are as follows:

| | Period |
|---|---|
| Premises | 25-40 years |
| Equipment and furniture | 2-10 years |
| Computer hardware | 2-10 years |
| Leasehold improvements | Minimum of useful life and term of related leases |
| Right-of-use assets[1] | Minimum of useful life and term of related leases |

(1) Right-of use assets were recognized as of November 1, 2019. Refer to Notes 3.2 and 5 for further details.

The residual values underlying the calculation of depreciation of items of property are kept under review to take account of any change in circumstances. Useful lives and method of depreciation are also reviewed regularly, at a minimum at the end of each fiscal year, and adjusted if appropriate. These changes are treated as changes in accounting estimates.

#### Impairment of premises and equipment

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is considered to be impaired and it is written down to its recoverable amount. Assets are reviewed to determine whether there is any indication of impairment. Assessing whether such indications exist is subject to management's judgment.

### 3.6 SOFTWARE AND OTHER INTANGIBLE ASSETS

Software and other intangible assets are recorded at cost including expenditure that is directly attributable to the acquisition of the items, less accumulated amortization and impairment losses. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets.

#### Amortization

Amortization begins when the asset is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Software is amortized on a straight line basis over its estimated useful life, which ranges from two to twenty years. Amortization of software is recorded in the Consolidated Statement of Income under the Premises and technology line item. Other intangible assets with finite lives, mainly consisting of contractual relationships with Advisors and Brokers, core deposit intangibles, as well as certain components of the core banking system and of the program to implement the Basel Advanced Internal Ratings Based approach to credit risk currently in use, are amortized on a straight-line basis over their estimated useful life, which ranges from three to twenty years. Amortization of other intangible assets is included in other non-interest expenses.

#### Impairment of software and other intangible assets

Software and intangible assets with finite lives are tested for impairment whenever there is an indication that the asset may be impaired and at least annually for IT projects and other intangible assets under development. When the carrying amount exceeds its estimated recoverable amount, the assets with finite lives are considered impaired and are written down to their recoverable amount. Software and other intangible assets that do not generate cash inflows that are largely independent of those from other assets or group of assets are tested for impairment at the CGU level. Any impairment arising from a decline in value of intangible assets is charged to income in the period in which the losses are incurred.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 3.7 EMPLOYEE BENEFITS

The Bank provides short-term benefits such as salary, health and life insurance, annual leave as well as other incentive plans. The Bank also provides post-employment benefits, including pension plans, as well as, for certain retired employees, health and life insurance.

#### Short-term benefits

The Bank recognizes a compensation expense as services are rendered by employees.

#### Post-employment benefits

The Bank has a number of benefit plans, including defined benefit and defined contribution pension plans, as well as other post-employment benefits.

*Defined benefit pension plans*

Typically, defined benefit plans provide benefits based on years of service, age, contribution and average earnings. The defined benefit asset or liability, recognized on the Consolidated Balance Sheet, corresponds to the present value of the plan obligation less the fair value of the plan assets at the balance sheet date. The present value of the defined benefit obligation is measured using the estimated future cash outflows discounted at the rate of high-quality corporate bonds with a maturity approximating the terms of the related defined benefit obligations. The cost of providing benefits under the plans is determined for each plan using the projected unit credit actuarial valuation method, which incorporates various parameters such as discount rates, future salary levels, retirement age, mortality rates and the general inflation rate. Pension plan assets are measured at fair value.

Actuarial gains and losses arise from changes in actuarial assumptions used to determine the plan obligation. Actuarial gains and losses are recognized as they occur in items of other comprehensive income that may not be reclassified subsequently to the Consolidated Statement of Income and are immediately transferred to retained earnings.

The value of any pension plan asset is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. Any restriction would be recorded as a valuation allowance.

Funding is generally provided by the Bank.

Defined benefit costs recognized in the Consolidated Statement of Income under Salaries and employee benefits consist of: a) current year's service cost, b) interest expense on the defined benefit obligation, c) return on plan assets based on the rate used to discount the plan obligation, d) past service cost and e) change in the valuation allowance.

*Defined contribution pension plans*

As part of the pension plans, the Bank also operates defined contribution pension arrangements. The contribution payable to these defined contribution arrangements is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under Salaries and employee benefits. Unpaid contributions are recorded as a liability.

Funding is generally provided by both the Bank and the participating employees of the plans.

*Other post-employment benefits*

The Bank offers other post-employment benefits to its employees such as a salary continuance plan during maternity leave and the payment of group insurance plan premiums during a disability period or maternity leave. In addition, certain retired employees have other retirement benefits, including health and life insurance. The costs related to these benefits are recognized during the employees' service life according to accounting policies similar to those applied to defined benefit pension plans.

Funding is generally provided by the Bank and the participating employees of the plans.

#### Assumptions

Valuation of employee benefits for defined benefit pension plans and other post-employment benefits are calculated by the Bank's independent actuaries based on a number of assumptions determined by management such as discount rates, future salary levels, retirement age, mortality rates and health-care cost escalation. The discount rate is determined using a high-quality corporate bond yield curve, whose construction requires significant judgment. Other key assumptions also require significant management judgment. Considering the importance of defined benefit obligations and due to the long term nature of these plans, changes in assumptions could have a significant impact on the defined benefit plan assets (liabilities), as well as on pension plan and other post-employment benefit expenses.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 3.8 INCOME TAXES

The Bank uses the liability method of tax allocation and accounts for the deferred income tax assets and liabilities related to loss carry forwards and other temporary differences between the carrying amounts and the tax bases of assets and liabilities, in accordance with tax laws and rates enacted or substantively enacted on the date the differences are expected to reverse. A valuation allowance is established, as needed, to reduce the deferred income tax asset to the amount that is more likely than not to be realized. All amounts resulting from changes in tax rates are recorded in net income, except to the extent that it relates to items previously recognized in equity, in which case they are recorded in equity.

Deferred income tax assets and liabilities reflect management's estimate of temporary differences. Asset values are determined using assumptions regarding the results of operations of future fiscal years, timing of reversal of temporary differences and tax rates on the date of reversals, which may well change depending on governments' fiscal policies. Management must also assess whether it is more likely than not that deferred income tax assets will be realized and determine whether a valuation allowance is required on all or a portion of deferred income tax assets.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

In addition, the Bank takes part in the normal course of its business in certain transactions for which the tax impacts are uncertain. Management therefore interprets tax legislation in various jurisdictions and accounts for provisions for uncertain tax positions. The provisions are estimated at the end of each reporting period and reflect management's best estimate of the amounts that may have to be paid. In the case where an audit by tax authorities results in an adjustment to the provision, the difference will impact the income taxes of the period in which the assessment was made.

The use of different assumptions or interpretations could translate into significantly different income tax assets and liabilities, as well as income tax expense or recovery.

### 3.9 PROVISIONS AND CONTINGENT LIABILITIES

Provisions are liabilities of uncertain timing or amount. They are recognized when the Bank has a present legal or constructive obligation as a result of a past event, and it is both probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated, considering all relevant risks and uncertainties. Contingent liabilities are not recognized but are disclosed in the Consolidated Financial Statements when it cannot be determined whether an obligation is probable or the amount of loss cannot reliably be estimated. The adequacy of provisions is regularly assessed and the necessary adjustments to incorporate new information are made as it becomes available.

Management exercises judgment in determining whether a past event or transaction may result in the recognition of a provision or the disclosure of a contingent liability, for instance in the case of legal actions or restructuring plans. Management and internal and external experts are involved in assessing the probability and in estimating any amounts involved. Furthermore, the actual cost of resolving these obligations may be substantially higher or lower than the amount recognized.

### 3.10 EARNINGS PER SHARE

The Bank calculates its basic earnings per share by dividing net income for the period, after deduction of preferred share dividends, including applicable income taxes, as well as premiums on redemption of preferred shares, by the weighted-average number of common shares outstanding for the period. Diluted earnings per share are calculated by dividing the basic earnings, adjusted for the effects of potentially dilutive common shares, by the weighted-average number of common shares outstanding adjusted for the period, inclusive of the effect of potentially dilutive common shares.

### 3.11 INSURANCE

The Bank is engaged in credit life and disability insurance activities. Insurance premiums are recognized as revenue, net of reinsurance, over the terms of the underlying policies. Insurance claims and changes in policy holder benefit estimates are recorded as incurred. These activities are presented in other income under Insurance income, net.

### 3.12 SHARE-BASED COMPENSATION

The Bank provides share-based compensation to certain employees and directors.

Compensation expense of share purchase options is accrued based on the best estimate of the number of instruments expected to vest, with revisions made to that estimate if subsequent information indicates that actual forfeitures are likely to differ from initial estimates. Share purchase options are expensed over the applicable vesting period with a corresponding increase in share-based payment reserve in equity. Upon exercise of the instruments, corresponding amounts in the share-based payment reserve are transferred to the common share account within shareholders' equity.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Stock appreciation rights, restricted share units, performance share units (PSUs) and deferred share units are accounted for as cash-settled share-based payment awards. These rights and units are recognized as a compensation expense over the applicable vesting period with a corresponding liability accrued based on the fair value of the Bank's common shares and, for PSUs, specific performance conditions. The change in the value of rights and units resulting from changes in the fair value of the Bank's common shares or changes in the specific performance conditions and credited dividends is recognized in income during the vesting period, partly offset by the effect of total return swaps used to manage the variability in the value of the related rights and units.

The Bank's contributions related to the employee share purchase program are recognized as compensation expense.

### 3.13 ASSETS UNDER ADMINISTRATION

The Bank administers assets held by customers that are not recognized in the Consolidated Balance Sheet. Revenues derived from the administration of these assets are recorded in other income, as services are provided.

### 3.14 TRANSLATION OF FOREIGN CURRENCIES

The Consolidated Financial Statements are presented in Canadian dollars which is the Bank's presentation currency. Items included in the financial statements of each of the Bank's entities are measured using their functional currency, which is the currency of the primary economic environment in which they operate.

Monetary assets and liabilities denominated in a currency that differs from an entity's functional currency are translated into the functional currency of the entity at the exchange rate prevailing at the balance sheet date. Non-monetary assets and liabilities that are measured at historical cost are translated at historical exchange rates. Non-monetary assets that are measured at fair value are translated at the exchange rate prevailing at the balance sheet date. Income and expenses are translated at the average monthly exchange rates prevailing throughout the year. Gains and losses resulting from the translation of foreign currencies are included in other income except for available-for-sale equity securities not designated in fair value hedges, where unrealized translation gains and losses are included in other comprehensive income until the asset is sold or becomes impaired.

Assets and liabilities of the foreign operations with a functional currency in U.S. dollars are translated into Canadian dollars at the exchange rates prevailing at the Consolidated Balance Sheet date, and income and expenses of the foreign operations are translated at the average monthly exchange rates prevailing throughout the year. Any goodwill and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations, and are translated at the exchange rate prevailing at the Consolidated Balance Sheet date. Unrealized gains and losses resulting from the translation of foreign operations, along with related hedges and tax effects are included in other comprehensive income. Upon disposal or partial disposal of a foreign operation, an appropriate proportion of the translation differences previously recognized in other comprehensive income is recognized in other income.

### 3.15 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and non-interest-bearing deposits with banks, and are measured at amortized cost. Cash comprises bank notes and coins.

### 3.16 SHARE CAPITAL

#### Share issue costs

Incremental costs directly attributable to the issue of new shares or options are recorded in equity as a deduction from the proceeds, net of applicable income taxes.

#### Dividend on common shares

Dividends on common shares are recorded in equity in the period in which they are approved by the Bank's Board of Directors.

## 4. FUTURE ACCOUNTING CHANGES

This section summarizes new standards and amendments to existing standards which have been issued but are not yet effective.

### Conceptual Framework for Financial Reporting

In March 2018, the IASB issued a comprehensive set of concepts for financial reporting, the revised *Conceptual Framework for Financial Reporting* (Conceptual Framework), replacing the previous version of the Conceptual Framework issued in 2010. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the IASB in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The revised Conceptual Framework is effective immediately for the IASB and the IFRS Interpretations Committee.

The revised Conceptual Framework has an effective date of January 1, 2020 for companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction. The adoption of the revised Conceptual Framework has no significant impact on the Bank's Consolidated Financial Statements as at November 1, 2020.

### Insurance Contracts (IFRS 17)

In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which sets out the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 replaces the previous insurance contract standard, IFRS 4, *Insurance Contracts*. In March 2020, the IASB has completed its discussions on the amendments to IFRS 17 that were proposed for public consultation in June 2019 and decided that the effective date of the Standard will be deferred to annual reporting periods beginning on or after January 1, 2023. The Board also decided to extend the exemption currently in place for some insurers regarding the application of IFRS 9, *Financial Instruments* to enable them to implement both IFRS 9 and IFRS 17 at the same time. The Bank is currently assessing the impact of the adoption of this standard on its Consolidated Financial Statements.

### Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

In August 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"). The Amendments address the accounting issues that arise when financial instruments that reference IBORs transition to nearly risk-free rates (RFRs) and completes the IASB's work to amend IFRS in response to the IBOR Reform. The amendments are effective for annual periods beginning on or after January 1, 2021, which will be November 1, 2021 for the Bank. Earlier application is permitted.

The Bank has established an enterprise wide program, aimed at ensuring the transition from IBORs to RFRs. The program has been focused on identifying and quantifying our exposures to various interest rate benchmarks, providing the capability to trade products referencing alternative RFRs, including assessing system changes and impacts on hedge accounting, as well as evaluating our existing contract amendment language with consideration to those extending past 2021, in the event IBORs cease to exist. The Bank is also assessing the potential impact of the adoption of the Amendments on its Consolidated Financial Statements. Refer to Note 5 for further details about amendments to accounting standards adopted in 2020 in response to the IBOR Reform (Phase 1).

## 5. ADOPTION OF NEW ACCOUNTING STANDARDS

### Leases (IFRS 16)

Under IFRS 16, a lease is a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For the lessor, the standard does not provide for any significant changes. Therefore, there was no impact on the Bank for leases where it is the lessor.

For leases previously classified as operating leases, as a lessee, the Bank elected to apply the following transitional expedients as at November 1, 2019 :

- contracts existing as at November 1, 2019 and ending in 2020 will be recognized as lease expense (short term leases);
- low value leases will be recognized as lease expense; and
- use of hindsight to determine lease term.

The adoption of IFRS 16 resulted in the recognition of real estate operating leases on the Bank's Consolidated Balance Sheet as right-of-use assets with the corresponding lease liabilities.

## 5. ADOPTION OF NEW ACCOUNTING STANDARDS (CONT'D)

At the transition date, right-of-use assets were measured on a lease-by-lease basis at either:

- their carrying amount as if IFRS 16 had been applied since the lease commencement date, discounted using the Bank's incremental borrowing rate as at November 1, 2019; or
- an amount equal to the lease liability as at November 1, 2019.

Lease liabilities were measured at the present value of the remaining lease payments, using the Bank's incremental borrowing rate as at November 1, 2019. The weighted-average rate applied was 2.96%.

The Bank used hindsight when determining the lease term if the contract contained options to extend or terminate the lease, which is a practical expedient permitted upon transitioning to IFRS 16.

On November 1, 2019, the Bank recognized right-of-use assets of $139.4 million and lease liabilities of $171.3 million, eliminated net liabilities recognized under IAS 17 of $21.9 million and, as a result, recognized a reduction of shareholders' equity of $7.3 million, net of income taxes. The adoption of IFRS 16 reduced the Common Equity Tier 1 capital ratio by 10 basis points.

Commitments under operating leases as at October 31, 2019, as reported in the Consolidated Financial Statements for the year ended October 31, 2019, differ from the lease liability recognized as at November 1, 2019 mainly as a result of excluding future variable lease payments and future payments for short-term leases and low value leases, as well as from the effect of discounting the lease liability.

On May 28, 2020, the IASB issued an amendment to IFRS 16 to make it easier for lessees to account for COVID-19-related rent concessions such as rent holidays and temporary rent reductions. The amendment provides optional relief to lessees from applying IFRS 16's lease modification accounting for rent concessions arising as a direct consequence of COVID-19. As services were maintained, the Bank has not benefited from rent concessions and consequently this amendment had no impact for the Bank.

### Interest Rate Benchmark Reform – Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7)

Various interest rates IBOR benchmarks) have been, and continue to be, the subject of international regulatory guidance and proposals for reform. Following the decision to eliminate the IBOR rates post December 31, 2021, efforts to transition away from IBORs to alternative reference rates have been continuing in various jurisdictions (the IBOR Reform).

In response to the ongoing IBOR Reform, the IASB issued on September 26, 2019 *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, and IFRS 7)* of which the Bank adopted the applicable amendments relating to hedge accounting. The amendments provide temporary exceptions from applying specific hedge accounting requirements to all hedging relationships directly affected by the IBOR Reform. Under the amendments, entities would apply hedge accounting requirements assuming that the interest rate benchmark is not altered, thereby enabling hedge accounting to continue during the period of uncertainty prior to the replacement of an existing interest rate benchmark with an alternative benchmark rate. The amendments also provide an exception from the requirement to discontinue hedge accounting if the actual results of the hedge do not meet the effectiveness requirements as a result of the IBOR Reform. Amendments were also made to IFRS 7 introducing additional disclosures related to amended IAS 39.

The Bank's hedging relationships have significant exposure to USD LIBOR benchmark rates. Under the IBOR Reform, these benchmark rates may be subject to discontinuance, changes in methodology, or become illiquid as the IBOR Reform evolves. As a result of these developments, significant judgment is required in determining whether certain hedging relationships that hedge the variability of cash flows and interest rate or foreign exchange risk due to changes in IBORs continue to qualify for hedge accounting. Impacted hedging relationships will continue to be monitored for the impact of the IBOR Reform. As a result of the amendments relating to hedge accounting, existing hedges are still effective and the IBOR Reform has had no impact for the current year. The notional amount of cross-currency swaps and interest rate swaps indexed to USD LIBOR, with a maturity date beyond December 31, 2021, is $535,4 million as at October 31, 2020. These instruments are being monitored for the impact of IBOR Reform. Refer to Note 4 for further details about future accounting changes in response to the IBOR Reform (Phase 2).

### IFRS Interpretations Committee Interpretation 23, Uncertainty over income tax treatments (IFRIC 23)

On November 1, 2019, the Bank adopted IFRIC 23 which provides guidance on the recognition and measurement of tax assets and liabilities under IAS 12, *Income taxes*, when there is uncertainty over income tax treatments, replacing the Bank's application of IAS 37, *Provisions, contingent liabilities and contingent assets*, for uncertain tax positions. The adoption of IFRIC 23 had no impact on the Bank's Consolidated Financial Statements.

### Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

On November 1, 2019, the Bank adopted amendments to IAS 19, *Employee Benefits* which specifies how companies determine pension expenses when changes to a defined benefit pension plan occur. The adoption of this standard had no significant impact on the Bank's Consolidated Financial Statements as at November 1, 2019 and for the current year.

## 6. SECURITIES

### Credit quality

As at October 31, 2020, debt securities at amortized cost and at FVOCI are classified in Stage 1, with their credit rating falling mainly in the "Low risk" category according to the Bank's internal risk-rating categories. As at October 31, 2020, allowances for credit losses amounted to $0.2 million ($0.1 million as at October 31, 2019) for debt securities at amortized cost and $0.2 million ($0.1 million as at October 31, 2019) for debt securities at FVOCI.

### Securities at amortized cost

| | 2020 | 2019 |
|---|---|---|
| Securities issued or guaranteed | | |
| by Canada[1] | $ 1,048,606 | $ 1,415,947 |
| by provinces | 1,550,127 | 1,174,121 |
| by municipalities | 117,993 | 23,336 |
| Other debt securities | 392,972 | 131,525 |
| | $ 3,109,698 | $ 2,744,929 |

(1) Including mortgage-backed securities that are fully guaranteed by the Canada Mortgage and Housing Corporation pursuant to the National Housing Act.

*Gains (losses) on disposals of securities at amortized cost*

During the years ended October 31, 2020 and 2019, the Bank sold certain debt securities measured at amortized cost for liquidity management purposes. The carrying value of these securities, mainly consisting of treasury bills, was $739.4 million upon disposal in 2020 ($428.8 million in 2019). The Bank recognized negligible net losses in Income from financial instruments in the Consolidated Statement of Income in 2020 and 2019.

### Securities at FVOCI

*Accumulated unrealized gains and losses recognized in other comprehensive income are detailed as follows:*

| | | | | 2020 |
|---|---|---|---|---|
| | Amortized cost | Unrealized gains | Unrealized losses | Fair value[1] |
| Securities issued or guaranteed | | | | |
| by Canada[2] | $ 16,405 | $ 482 | $ 8 | $ 16,879 |
| by provinces | 9,692 | 435 | — | 10,127 |
| by municipalities | 49,302 | 1,009 | — | 50,311 |
| Other debt securities | 25,471 | 904 | 9 | 26,366 |
| Asset-backed securities | 730 | 10 | — | 740 |
| Preferred shares | 177,122 | 2,171 | 28,025 | 151,268 |
| Common shares and other securities | 19,460 | 805 | 1,377 | 18,888 |
| | $ 298,182 | $ 5,816 | $ 29,419 | $ 274,579 |

| | | | | 2019 |
|---|---|---|---|---|
| | Amortized cost | Unrealized gains | Unrealized losses | Fair value[1] |
| Securities issued or guaranteed | | | | |
| by Canada[2] | $ 35,915 | $ 124 | $ 20 | $ 36,019 |
| by provinces | 4,954 | 52 | 8 | 4,998 |
| by municipalities | 55,346 | 241 | 58 | 55,529 |
| Other debt securities | 24,970 | 421 | 26 | 25,365 |
| Asset-backed securities | 1,228 | 6 | — | 1,234 |
| Preferred shares | 192,935 | 532 | 31,546 | 161,921 |
| Common shares and other securities | 25,648 | 2,664 | 517 | 27,795 |
| | $ 340,996 | $ 4,040 | $ 32,175 | $ 312,861 |

(1) The allowances for credit losses on debt securities at FVOCI, amounting to $0.2 million as at October 31, 2020 ($0.1 million as at October 31, 2019) are reported in Accumulated other comprehensive income.

(2) Including mortgage-backed securities that are fully guaranteed by the Canada Mortgage and Housing Corporation pursuant to the National Housing Act.

## 6. SECURITIES (CONT'D)

*Equity securities designated at FVOCI*
The Bank designated certain equity securities, the business objective of which is mainly to generate dividend income, at FVOCI without subsequent reclassification of gains and losses to net income.

For the year ended October 31, 2020, an amount of $9.8 million in dividend income was recognized in earnings on these investments ($10.3 million for the year ended October 31, 2019), including a negligible amount for investments that were sold during 2020 and 2019.

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Fair value at beginning of year | **$** | **189,716** | $ | 180,058 |
| Change in fair value | | **2,407** | | (21,573) |
| Designated at FVOCI | | **43,164** | | 71,087 |
| Sales or redemptions | | **(65,130)** | | (39,856) |
| Fair value at end of year | **$** | **170,157** | $ | 189,716 |

Sales of equity securities designated at FVOCI in 2020 and 2019 were driven by asset allocation decisions and outlook assessments. The cumulative net loss realized as a result of the sale of these securities amounted to $10.6 million in 2020 ($3.5 million in 2019).

Refer to Note 23 for additional information on the determination of fair value of securities.

## 7. LOANS AND ALLOWANCES FOR CREDIT LOSSES

As at October 31, 2020 and October 31, 2019, loans are recognized on the Consolidated Balance Sheet at amortized cost as outlined in Note 3.

### Determining and measuring expected credit losses (ECL)

*Expected Credit Losses*

Expected credit losses are determined using a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

- Stage 1: Financial instruments that are not impaired and for which the credit risk has not increased significantly since initial recognition are classified in Stage 1.
- Stage 2: Financial instruments that have experienced a significant increase in credit risk between initial recognition and the reporting date but are not impaired are migrated to Stage 2.
- Stage 3: Financial instruments for which there is objective evidence of impairment, for which one or more events have had a detrimental impact on estimated future cash flows at the reporting date and are considered credit impaired, are classified in Stage 3.
- POCI: Financial instruments that are credit-impaired when purchased or originated (POCI) are classified in the POCI category.

*Governance and controls*
The Bank's risk management framework is applied to the determination of expected credit losses. The Bank has policies and procedures that govern impairments arising from credit risk. These policies are documented and periodically reviewed by the risk management function. Each month, the Bank's Retail Credit Committee reviews analyses on various credit metrics to identify risks and trends that might affect the retail portfolios. The Bank's Commercial Credit Committee also reviews material impaired loans as well as analyses on other impaired loans where payment is past due by 90 days or more. Collection processes are centralized and are based on specialized expertise. Complex questions on measurement methodologies and assumptions are reviewed by a group of experts from various functions. Furthermore, the inputs and assumptions used to determine expected credit losses are reviewed on a regular basis by the risk management function.

*Measurement of expected credit losses*
Expected credit losses are estimated using three main variables: (1) probability of default (PD), (2) loss given default (LGD) and (3) exposure at default discounted at the reporting date (EAD). For accounting purposes, 12-month expected credit losses are estimated by multiplying 12-month PD by LGD and by EAD. Lifetime expected credit losses are estimated using the lifetime PD.

Expected credit losses are measured either on a collective or an individual basis. Financial instruments that have credit losses measured on a collective basis are allocated to groups that share similar credit risk characteristics.

## 7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

*Inputs, assumptions and estimation techniques used*
The Bank's approach to calculating expected credit losses for IFRS 9 purposes leverages credit risk models based on the internal risk rating of credit facilities by adjusting parameters.

PD estimates
PD is an estimate of the likelihood that a loan will not be repaid over a given time horizon. The resulting PD estimates are built based on historical data, current market conditions and are estimated by incorporating reasonable and supportable forward-looking economic conditions at the balance sheet date. Some adjustments are made to Basel parameters to transform them into parameters compliant with IFRS 9 requirements, including the conversion of through-the-cycle parameters to point-in-time inputs that consider supportable and relevant information about future economic conditions.

LGD estimates
LGD represents the amount that may not be recovered in the case where a default occurs. LGD estimates are determined based on historical data, facility-specific characteristics such as collateral, direct costs and relevant information about future economic conditions, where appropriate.

EAD estimates
EAD represents an estimate of the exposure at the time a default may occur. Depending on the type of exposure, EAD includes forward-looking expectations about amounts to be drawn on a committed facility, if applicable, or expectations about repayments of drawn balances.

Expected life
For most financial instruments, the expected life used when measuring expected credit losses is the remaining contractual life. For revolving financial instruments where there is no contractual maturity, such as credit cards or lines of credit, the expected life is based on the behavioral life of the product.

Incorporation of forward-looking information
The Bank's Economy and Strategy group is responsible for developing three macroeconomic scenarios (base scenario, upside scenario and downside scenario) and for recommending probability weights for each scenario. Macroeconomic scenarios are not developed for specific portfolios, as the Economy and Strategy group provides a set of variables for each of the defined scenarios. ECL inputs and models rely on forward-looking macroeconomic factors  such as interest rates, unemployment rates, GDP forecasts and housing price indices.

*Assessment of significant changes in credit risk*
To assess whether the credit risk of a financial instrument has increased significantly, the 12-month PD at the reporting date is compared with the 12-month PD at the date of initial recognition, and reasonable and supportable information indicative of significant increases in credit risk since initial recognition is considered. The Bank has included relative and absolute thresholds in the definition of significant increase in credit risk and a backstop of 30 days past due. All financial instruments that are 30 days past due are migrated to stage 2 even if other metrics do not indicate that a significant increase in credit risk has occurred. The Bank also considers other relevant factors that may not be adequately reflected in the information used for this assessment (including late payments and whether the financial asset is subject to additional monitoring such as the watch list for commercial loan portfolios).

Similarly, the Bank determines whether credit risk has decreased significantly for loans that have been migrated to stage 2 or stage 3, using those same factors.

*Use of management overlays*
Management overlays to ECL allowance estimates are used where we judge that our existing inputs, assumptions and model techniques do not capture all relevant risk factors. The emergence of new macroeconomic or political events, along with expected changes to parameters, models or data that are not incorporated in our current parameters, internal risk rating migrations, or forward-looking information are examples of such circumstances. The use of management overlays requires the application of significant judgment.

*Determination of credit impairment*
The Bank considers a financial asset to be impaired when one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred or when contractual payments are 90 days past due.

### Impact of the COVID-19 pandemic

The uncertainties inherent in the COVID-19 pandemic have increased the level of judgment applied in respect of all these elements as discussed below. Actual credit losses could differ materially from those reflected in the Bank's estimates.

*Assessment of significant changes in credit risk*
The determination of whether a significant increase in credit risk has occurred in the COVID-19 pandemic required a heightened application of judgment in a number of areas, including with respect to the evaluation of the evolving macroeconomic environment, the various client relief programs provided and the unprecedented level of government support being provided to individuals and businesses.

## 7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

*Measurement of ECL*
The measurement of ECL in the COVID-19 pandemic required a heightened application of judgment in a number of areas, including with respect to our expectations concerning the degree to which forward-looking information would correlate with credit losses in the current downturn environment characterized by unprecedented levels of government support relative to the historical experience in our models. Judgment was applied with respect to the degree that certain industries and portfolios would be negatively impacted by the COVID-19 pandemic and the degree that various new government support programs are expected to limit credit losses.

*Forward-looking information and scenario weightings*
The forecasting of forward-looking information and the determination of scenario weightings in the COVID-19 pandemic required a heightened application of judgment in a number of areas as our forecast reflects numerous assumptions and uncertainties regarding the economic impact of the COVID-19 pandemic, which will ultimately depend on the speed at which an effective vaccine or treatment can be developed and administered on a mass scale, and the ability of governments, businesses and health care systems to effectively limit the epidemiological and economic impacts of potential resurgences of the virus in the intervening period.

*Management overlays*
Management overlays were applied with respect to the impact of government support and client relief measures on the migration of retail exposures and the resulting measurement of the ECL for those exposures. Overlays were also applied to better reflect risks related to certain real estate exposures, as well as to take into account the end of payment deferral measures.

### Credit quality of loans

The following tables present information on credit risk, according to credit quality and ECL impairment stage of each loan category.

*Credit risk rating grades*
Personal credit exposures
The Bank uses behavior scoring models to manage and monitor personal credit exposures. The table below shows the PD categories along with the associated credit qualities of the personal credit portfolios.

| PD (%) | Description |
|---|---|
| 0.00-0.33 | Very low risk |
| 0.34-0.83 | Low risk |
| 0.84-14.98 | Medium risk |
| 14.99-99.99 | High risk |
| 100 | Default |

Commercial credit exposures
For internal credit risk management, the Bank uses a 19-level risk rating system to evaluate commercial credit exposures. This risk rating system used by the Bank is similar to the systems used by major external rating agencies. The following table presents a grouping of the grades by major risk category and compares them with the ratings of two major rating agencies.

| Ratings | PD (%) | Standard & Poor's | DBRS | Description |
|---|---|---|---|---|
| 1-7 | 0.00-0.53 | AAA to BB+ | AAA to BB (high) | Very low risk |
| 8-10 | 0.54-2.28 | BB to BB- | BB to B (high) | Low risk |
| 11-13 | 2.29-9.91 | B+ to B- | B to CCC (high) | Medium risk |
| 14-16 | 9.92-99.99 | CCC+ to C | CC (high) to CCC | High risk |
| 17-19 | 100 | D | D | Default |

## 7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

*Credit risk exposure*

The following tables show the gross and net carrying amounts of loans and acceptances and off-balance sheet exposures as at October 31, 2020 and 2019, according to credit quality and ECL impairment stage of each loan category at amortized cost.

| | | | | 2020 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Personal loans** | | | | |
| Very low risk | $ 2,931,558 | $ 9,080 | $ — | $ 2,940,638 |
| Low risk | 445,747 | 104,585 | — | 550,332 |
| Medium risk | 331,779 | 246,309 | — | 578,088 |
| High risk | — | 15,712 | — | 15,712 |
| Default | — | — | 36,105 | 36,105 |
| Gross carrying amount | 3,709,084 | 375,686 | 36,105 | 4,120,875 |
| Allowances for loan losses | 6,996 | 17,330 | 17,212 | 41,538 |
| Net carrying amount | $ 3,702,088 | $ 358,356 | $ 18,893 | $ 4,079,337 |
| **Residential mortgage loans** | | | | |
| Very low risk | $ 10,008,099 | $ 103,223 | $ — | $ 10,111,322 |
| Low risk | 3,225,724 | 178,993 | — | 3,404,717 |
| Medium risk | 1,914,807 | 722,156 | — | 2,636,963 |
| High risk | — | 123,042 | — | 123,042 |
| Default | — | — | 65,846 | 65,846 |
| Gross carrying amount | 15,148,630 | 1,127,414 | 65,846 | 16,341,890 |
| Allowances for loan losses | 5,158 | 5,001 | 3,605 | 13,764 |
| Net carrying amount | $ 15,143,472 | $ 1,122,413 | $ 62,241 | $ 16,328,126 |
| **Commercial loans**[1] | | | | |
| Very low risk | $ 2,506,784 | $ 32,093 | $ — | $ 2,538,877 |
| Low risk | 6,768,408 | 186,369 | — | 6,954,777 |
| Medium risk | 2,630,411 | 309,950 | — | 2,940,361 |
| High risk | — | 125,559 | — | 125,559 |
| Default | — | — | 170,786 | 170,786 |
| Gross carrying amount | 11,905,603 | 653,971 | 170,786 | 12,730,360 |
| Allowances for loan losses | 44,712 | 17,890 | 55,618 | 118,220 |
| Net carrying amount | $ 11,860,891 | $ 636,081 | $ 115,168 | $ 12,612,140 |
| **Total loans** | | | | |
| Gross carrying amount | $ 30,763,317 | $ 2,157,071 | $ 272,737 | $ 33,193,125 |
| Allowances for loan losses | 56,866 | 40,221 | 76,435 | 173,522 |
| Net carrying amount | $ 30,706,451 | $ 2,116,850 | $ 196,302 | $ 33,019,603 |
| **Off-balance sheet exposures**[2] | | | | |
| Very low risk | $ 1,345,872 | $ 28,402 | $ — | $ 1,374,274 |
| Low risk | 1,374,916 | 53,877 | — | 1,428,793 |
| Medium risk | 459,632 | 43,183 | — | 502,815 |
| High risk | — | 7,527 | — | 7,527 |
| Default | — | — | — | — |
| Total exposure | 3,180,420 | 132,989 | — | 3,313,409 |
| Allowances for off-balance sheet exposures losses | 8,324 | 3,124 | — | 11,448 |
| Total exposure, net | $ 3,172,096 | $ 129,865 | $ — | $ 3,301,961 |

(1) Including customers' liabilities under acceptances.
(2) Including letters of guarantee and certain undrawn amounts under approved credit facilities.

## 7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

| | | | | 2019 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3[1] | Total |
| **Personal loans** | | | | |
| Very low risk | $ 2,811,585 | $ 13,126 | $ — | $ 2,824,711 |
| Low risk | 581,736 | 208,745 | — | 790,481 |
| Medium risk | 502,264 | 479,692 | — | 981,956 |
| High risk | 3,736 | 41,998 | — | 45,734 |
| Default | — | — | 17,642 | 17,642 |
| Gross carrying amount | 3,899,321 | 743,561 | 17,642 | 4,660,524 |
| Allowances for loan losses | 5,347 | 19,568 | 4,732 | 29,647 |
| Net carrying amount | $ 3,893,974 | $ 723,993 | $ 12,910 | $ 4,630,877 |
| **Residential mortgage loans** | | | | |
| Very low risk | $ 8,131,829 | $ 2,477 | $ — | $ 8,134,306 |
| Low risk | 3,743,129 | 273,476 | — | 4,016,605 |
| Medium risk | 2,601,941 | 1,034,080 | — | 3,636,021 |
| High risk | 4,616 | 188,896 | — | 193,512 |
| Default | — | — | 59,236 | 59,236 |
| Gross carrying amount | 14,481,515 | 1,498,929 | 59,236 | 16,039,680 |
| Allowances for loan losses | 2,021 | 1,802 | 1,050 | 4,873 |
| Net carrying amount | $ 14,479,494 | $ 1,497,127 | $ 58,186 | $ 16,034,807 |
| **Commercial loans[1]** | | | | |
| Very low risk | $ 2,338,807 | $ 3,596 | $ — | $ 2,342,403 |
| Low risk | 7,590,362 | 90,310 | — | 7,680,672 |
| Medium risk | 2,464,196 | 223,084 | — | 2,687,280 |
| High risk | — | 157,686 | — | 157,686 |
| Default | — | — | 98,283 | 98,283 |
| Gross carrying amount | 12,393,365 | 474,676 | 98,283 | 12,966,324 |
| Allowances for loan losses | 22,219 | 8,558 | 35,160 | 65,937 |
| Net carrying amount | $ 12,371,146 | $ 466,118 | $ 63,123 | $ 12,900,387 |
| **Total loans** | | | | |
| Gross carrying amount | $ 30,774,201 | $ 2,717,166 | $ 175,161 | $ 33,666,528 |
| Allowances for loan losses | 29,587 | 29,928 | 40,942 | 100,457 |
| Net carrying amount | $ 30,744,614 | $ 2,687,238 | $ 134,219 | $ 33,566,071 |
| **Off-balance sheet exposures[2]** | | | | |
| Very low risk | $ 1,362,719 | $ 78,717 | $ — | $ 1,441,436 |
| Low risk | 1,207,286 | 95,355 | — | 1,302,641 |
| Medium risk | 398,580 | 95,143 | — | 493,723 |
| High risk | 48 | 5,426 | — | 5,474 |
| Total exposure | 2,968,633 | 274,641 | — | 3,243,274 |
| Allowances for off-balance sheet exposures losses | 3,902 | 2,434 | — | 6,336 |
| Total exposure, net | $ 2,964,731 | $ 272,207 | $ — | $ 3,236,938 |

(1) Including customers' liabilities under acceptances.
(2) Including letters of guarantee and certain undrawn amounts under approved credit facilities.

## 7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

### Impaired loans

| | | | | | | 2020 |
|---|---|---|---|---|---|---|
| | | Gross impaired loans | | Allowances against impaired loans | | Net impaired loans |
| Personal loans | $ | **36,105** | $ | **17,212** | $ | **18,893** |
| Residential mortgage loans | | **65,846** | | **3,605** | | **62,241** |
| Commercial loans[1] | | **170,786** | | **55,618** | | **115,168** |
| | $ | **272,737** | $ | **76,435** | $ | **196,302** |

| | | | | | | 2019 |
|---|---|---|---|---|---|---|
| | | Gross impaired loans | | Allowances against impaired loans | | Net impaired loans |
| Personal loans | $ | 17,642 | $ | 4,732 | $ | 12,910 |
| Residential mortgage loans | | 59,236 | | 1,050 | | 58,186 |
| Commercial loans[1] | | 98,283 | | 35,160 | | 63,123 |
| | $ | 175,161 | $ | 40,942 | $ | 134,219 |

(1) Including customers' liabilities under acceptances.

### Payment relief programs

In response to the COVID-19 pandemic, the Bank has established payment relief programs during the second quarter of 2020 to help its customers through payment deferrals for residential mortgage loans and some personal and commercial loans. Payment deferrals have not been granted in connection with loans that had been identified as impaired (Stage 3). The Bank continued to accrue and recognize interest income on loans where payment deferrals were granted.

The following table shows the value of loans subject to these deferrals still outstanding as at October 31, 2020.

| | | | 2020 |
|---|---|---|---|
| | | Loan value[1] | As a % of loan portfolio |
| Personal loans | $ | **865** | **— %** |
| Residential mortgage loans | | **199,699** | **1.2 %** |
| Commercial loans | | **19,160** | **0.2 %** |
| | $ | **219,724** | **0.7 %** |

(1) Including personal, residential mortgage and commercial loans where a second three-month deferral was granted for $0.6 million, $143.4 million and $17.5 million, respectively as at October 31, 2020.

Deferred payments on these loans as at October 31, 2020 amounted to $6.5 million, mostly for residential mortgages, with very limited impact on our overall liquidity position.

*Credit quality of loans subject to deferrals*

For personal and residential mortgage loans, the Bank performed a careful assessment to consider reasonable and supportable information at an individual level in order to identify customers with higher susceptibility to long-term economic impacts which may indicate a higher PD. ECLs were adjusted accordingly to consider this analysis.

For commercial loans, as requests for relief were mainly reviewed and approved on a case-by-case basis, staging and ECLs calculation generally followed the Bank's normal process. Additional reviews were performed for certain commercial loan portfolios to identify potential increases in PD. ECLs were adjusted accordingly using management expert judgment.

Loans that were the subject to a first cycle of payment deferrals and for which the credit risk was assessed as presenting a from very low to medium risk were maintained at Stage 1. Loans that were subject to a second cycle of payment deferrals and for which the credit risk was considered medium have been transferred to Stage 2.

## 7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

### Loans past due but not impaired

The following table shows personal and residential mortgage loans that are past due but not classified as impaired. The Commercial loans past due but not impaired are not significant. Loans granted payment deferrals are not considered past due if the new contractual terms are respected.

| | | | | | | 2020 |
|---|---|---|---|---|---|---|
| | | 1 day-<br>31 days | | 32 days-<br>90 days | | Total |
| **Personal loans** | $ | **51,919** | $ | **20,796** | $ | **72,715** |
| **Residential mortgage loans** | | **172,001** | | **34,298** | | **206,299** |
| | $ | **223,920** | $ | **55,094** | $ | **279,014** |

| | | | | | | 2019 |
|---|---|---|---|---|---|---|
| | | 1 day-<br>31 days | | 32 days-<br>90 days | | Total |
| Personal loans | $ | 80,924 | $ | 27,330 | $ | 108,254 |
| Residential mortgage loans | | 213,697 | | 53,474 | | 267,171 |
| | $ | 294,621 | $ | 80,804 | $ | 375,425 |

### Write-offs

The contractual amount outstanding on financial assets that were written off during the year ended October 31, 2020 and that are still subject to enforcement activity was $6.2 million ($9.2 million for the year ended October 31, 2019).

### Reconciliation of allowances for credit losses

The following table presents the reconciliation of allowances for credit losses for each exposure category at amortized cost according to ECL impairment stage.

| | | | | | | | | 2020 |
|---|---|---|---|---|---|---|---|---|
| | | Stage 1 | | Stage 2 | | Stage 3 | | Total |
| **Personal loans** | | | | | | | | |
| Balance at beginning of period | $ | **7,297** | $ | **21,710** | $ | **4,732** | $ | **33,739** |
| Transfers: | | | | | | | | |
| to Stage 1 | | **7,310** | | **(7,160)** | | **(150)** | | **—** |
| to Stage 2 | | **(886)** | | **1,266** | | **(380)** | | **—** |
| to Stage 3 | | **(406)** | | **(1,642)** | | **2,048** | | **—** |
| Originations | | **1,609** | | **—** | | **—** | | **1,609** |
| Derecognitions | | **(692)** | | **(2,706)** | | **(2,210)** | | **(5,608)** |
| Net remeasurement of allowances | | **(5,474)** | | **8,064** | | **28,222** | | **30,812** |
| Provision for (reversal of) credit losses | | **1,461** | | **(2,178)** | | **27,530** | | **26,813** |
| Write-offs | | **—** | | **—** | | **(19,998)** | | **(19,998)** |
| Recoveries | | **—** | | **—** | | **5,833** | | **5,833** |
| Foreign exchange and other | | **—** | | **—** | | **(885)** | | **(885)** |
| Balance at end of period | $ | **8,758** | $ | **19,532** | $ | **17,212** | $ | **45,502** |
| Total allowances for loan losses | $ | **6,996** | $ | **17,330** | $ | **17,212** | $ | **41,538** |
| Total allowances for off-balance sheet exposures | | **1,762** | | **2,202** | | **—** | | **3,964** |
| Total allowances for credit losses | $ | **8,758** | $ | **19,532** | $ | **17,212** | $ | **45,502** |

## 7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

| | Stage 1 | Stage 2 | Stage 3 | 2020 Total |
|---|---|---|---|---|
| **Residential mortgage loans** | | | | |
| Balance at beginning of period | $ 2,032 | $ 1,824 | $ 1,050 | $ 4,906 |
| Transfers: | | | | |
| to Stage 1 | 1,202 | (731) | (471) | — |
| to Stage 2 | (565) | 691 | (126) | — |
| to Stage 3 | (128) | (115) | 243 | — |
| Originations | 1,359 | — | — | 1,359 |
| Derecognitions | (393) | (373) | (373) | (1,139) |
| Net remeasurement of allowances | 1,979 | 3,752 | 6,991 | 12,722 |
| Provision for (reversal of) credit losses | 3,454 | 3,224 | 6,264 | 12,942 |
| Write-offs | — | — | (4,271) | (4,271) |
| Recoveries | — | — | 2,090 | 2,090 |
| Foreign exchange and other | (85) | — | (1,528) | (1,613) |
| Balance at end of period | $ 5,401 | $ 5,048 | $ 3,605 | $ 14,054 |
| Total allowances for loan losses | $ 5,158 | $ 5,001 | $ 3,605 | $ 13,764 |
| Total allowances for off-balance sheet exposures | 243 | 47 | — | 290 |
| Total allowances for credit losses | $ 5,401 | $ 5,048 | $ 3,605 | $ 14,054 |

| | Stage 1 | Stage 2 | Stage 3 | 2020 Total |
|---|---|---|---|---|
| **Commercial loans** | | | | |
| Balance at beginning of period | $ 24,160 | $ 8,828 | $ 35,160 | $ 68,148 |
| Transfers: | | | | |
| to Stage 1 | 2,117 | (1,231) | (886) | — |
| to Stage 2 | (3,084) | 4,310 | (1,226) | — |
| to Stage 3 | (396) | (2,767) | 3,163 | — |
| Originations | 14,377 | — | — | 14,377 |
| Derecognitions | (6,934) | (3,868) | (7,113) | (17,915) |
| Net remeasurement of allowances | 20,922 | 13,659 | 45,502 | 80,083 |
| Provision for (reversal of) credit losses | 27,002 | 10,103 | 39,440 | 76,545 |
| Write-offs | — | — | (17,855) | (17,855) |
| Recoveries | — | — | 1,272 | 1,272 |
| Foreign exchange and other | (131) | (166) | (2,399) | (2,696) |
| Balance at end of period | $ 51,031 | $ 18,765 | $ 55,618 | $ 125,414 |
| Total allowances for loan losses | $ 44,712 | $ 17,890 | $ 55,618 | $ 118,220 |
| Total allowances for off-balance sheet exposures | 6,319 | 875 | — | 7,194 |
| Total allowances for credit losses | $ 51,031 | $ 18,765 | $ 55,618 | $ 125,414 |
| **Total exposure** | | | | |
| Total allowances for loan losses | $ 56,866 | $ 40,221 | $ 76,435 | $ 173,522 |
| Total allowances for off-balance sheet exposures | 8,324 | 3,124 | — | 11,448 |
| Total allowances for credit losses | $ 65,190 | $ 43,345 | $ 76,435 | $ 184,970 |

## 7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

| | | | | 2019 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Personal loans** | | | | |
| Balance at beginning of period | $ 11,070 | $ 22,498 | $ 4,934 | $ 38,502 |
| Transfers: | | | | |
| to Stage 1 | 7,373 | (7,066) | (307) | — |
| to Stage 2 | (1,629) | 1,963 | (334) | — |
| to Stage 3 | (102) | (934) | 1,036 | — |
| Originations | 710 | — | — | 710 |
| Derecognitions | (1,123) | (3,372) | (2,084) | (6,579) |
| Net remeasurement of allowances | (9,002) | 8,621 | 24,030 | 23,649 |
| Provision for (reversal of) credit losses | (3,773) | (788) | 22,341 | 17,780 |
| Write-offs | — | — | (28,293) | (28,293) |
| Recoveries | — | — | 6,655 | 6,655 |
| Foreign exchange and other | — | — | (905) | (905) |
| Balance at end of period | $ 7,297 | $ 21,710 | $ 4,732 | $ 33,739 |
| Total allowances for loan losses | $ 5,347 | $ 19,568 | $ 4,732 | $ 29,647 |
| Total allowances for off-balance sheet exposures | 1,950 | 2,142 | — | 4,092 |
| Total allowances for credit losses | $ 7,297 | $ 21,710 | $ 4,732 | $ 33,739 |

| | | | | 2019 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Residential mortgage loans** | | | | |
| Balance at beginning of period | $ 2,446 | $ 1,840 | $ 443 | $ 4,729 |
| Transfers: | | | | |
| to Stage 1 | 778 | (696) | (82) | — |
| to Stage 2 | (202) | 273 | (71) | — |
| to Stage 3 | (22) | (138) | 160 | — |
| Originations | 657 | — | — | 657 |
| Derecognitions | (334) | (291) | (312) | (937) |
| Net remeasurement of allowances | (1,291) | 836 | 4,019 | 3,564 |
| Provision for (reversal of) credit losses | (414) | (16) | 3,714 | 3,284 |
| Write-offs | — | — | (4,353) | (4,353) |
| Recoveries | — | — | 2,771 | 2,771 |
| Foreign exchange and other | — | — | (1,525) | (1,525) |
| Balance at end of period | $ 2,032 | $ 1,824 | $ 1,050 | $ 4,906 |
| Total allowances for loan losses | $ 2,021 | $ 1,802 | $ 1,050 | $ 4,873 |
| Total allowances for off-balance sheet exposures | 11 | 22 | — | 33 |
| Total allowances for credit losses | $ 2,032 | $ 1,824 | $ 1,050 | $ 4,906 |

## 7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

| | | | | 2019 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3[1] | Total |
| **Commercial loans** | | | | |
| Balance at beginning of period | $ 22,192 | $ 8,252 | $ 32,980 | $ 63,424 |
| Transfers: | | | | |
| to Stage 1 | 2,557 | (2,304) | (253) | — |
| to Stage 2 | (763) | 1,150 | (387) | — |
| to Stage 3 | (152) | (1,128) | 1,280 | — |
| Originations | 9,308 | — | — | 9,308 |
| Derecognitions | (6,940) | (3,480) | (2,177) | (12,597) |
| Net remeasurement of allowances | (2,070) | 6,338 | 22,357 | 26,625 |
| Provision for (reversal of) credit losses | 1,940 | 576 | 20,820 | 23,336 |
| Write-offs | — | — | (18,930) | (18,930) |
| Recoveries | — | — | 2,093 | 2,093 |
| Foreign exchange and other | 28 | — | (1,803) | (1,775) |
| Balance at end of period | $ 24,160 | $ 8,828 | $ 35,160 | $ 68,148 |
| Total allowances for loan losses | $ 22,219 | $ 8,558 | $ 35,160 | $ 65,937 |
| Total allowances for off-balance sheet exposures | 1,941 | 270 | — | 2,211 |
| Total allowances for credit losses | $ 24,160 | $ 8,828 | $ 35,160 | $ 68,148 |
| Total exposure | | | | |
| Total allowances for loan losses | $ 29,587 | $ 29,928 | $ 40,942 | $ 100,457 |
| Total allowances for off-balance sheet exposures | 3,902 | 2,434 | — | 6,336 |
| Total allowances for credit losses | $ 33,489 | $ 32,362 | $ 40,942 | $ 106,793 |

(1) Comparative figures for Write-offs, Recoveries, Foreign exchange and other in Stage 3 have been reclassified in order to conform with presentation adopted in the current year.

### Main macroeconomic factors

The following shows the main macroeconomic factors used to estimate the collective allowances for credit losses as at October 31, 2020 and as at October 31, 2019.

| | | | | | | **2020** |
|---|---|---|---|---|---|---|
| | **Base scenario** | | **Upside scenario** | | **Downside scenario** | |
| | **Next 12 months[1]** | **Remaining forecast period[2]** | **Next 12 months[1]** | **Remaining forecast period[2]** | **Next 12 months[1]** | **Remaining forecast period[2]** |
| **Main macroeconomic factors** | | | | | | |
| GDP growth | **4.8%** | **4.3%** | **6.5%** | **4.8%** | **0.2%** | **5.8%** |
| Average unemployment rate (percentage points) | **9.5** | **7.0** | **8.5** | **6.6** | **11.1** | **8.8** |
| Housing price index growth (decrease) | **0.2%** | **4.8%** | **3.2%** | **5.9%** | **(11.8)%** | **2.0%** |
| S&P/TSX index growth[3] | **11.8%** | **12.0%** | **19.9%** | **12.8%** | **0.1%** | **15.5%** |

| | | | | | | 2019 |
|---|---|---|---|---|---|---|
| | Base scenario | | Upside scenario | | Downside scenario | |
| | Next 12 months[1] | Remaining forecast period[2] | Next 12 months[1] | Remaining forecast period[2] | Next 12 months[1] | Remaining forecast period[2] |
| Main macroeconomic factors | | | | | | |
| GDP growth | 1.6% | 1.4% | 2.3% | 1.7% | (3.0)% | 2.8% |
| Average unemployment rate (percentage points) | 5.5 | 5.4 | 5.3 | 5.1 | 7.2 | 7.0 |
| Housing price index growth (decrease) | 3.2% | 1.9% | 4.5% | 3.0% | (7.5)% | 1.1% |
| S&P/TSX index growth[3] | 3.6% | 1.5% | 11.3% | 7.5% | (22.0)% | 8.5% |

(1) Expected variation over the next 12 months for growth indicators and average unemployment rate over the next 12 months. These factors are used for Stage 1 ECL calculations.
(2) Expected variation over the remaining forecast period for growth indicators and average unemployment rate over the remaining forecast period. These factors are used for Stage 2 and Stage 3 ECL calculations.
(3) Main stock index in Canada.

## 7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

The main macroeconomic factors used for the personal and residential mortgage loan portfolios are the unemployment rate, the housing price index and the S&P/TSX growth. The main macroeconomic factors used for the commercial loan portfolio is the GDP growth. An increase in unemployment will generally correlate with higher allowances for credit losses, whereas an increase in the other macroeconomic factors (GDP growth, S&P/TSX growth and housing price index growth) will generally correlate with lower allowances for credit losses.

*Description of scenarios*
In the base scenario, the second wave of the COVID-19 pandemic leads authorities to implement localized and partial shutdowns this fall in North America. Smaller social gatherings and targeted restrictive health measures slow the pace of economic momentum in late 2020 after the robust initial reopening of last Summer. Overall, the targeted health measures succeed in tapering off the number of new daily cases over time. Once the virus transmission rate is brought under control by year-end, the recovery resumes in early 2021. The recovery is gradual as it takes more time for hardest hit industries to recover. The distribution of at least one effective and safe vaccine begins before the end of 2020. A larger number of vaccines become steadily available during 2021. Consumer, business and market confidence is restored as long-lasting social immunity takes place, leading to a more sustainable growth path in 2022. The yield curve slightly steepens over time as North American central banks signal their intention to maintaining their policy rates at 0.25% even when the recovery will be well underway.

In the downside scenario, the second wave of the COVID-19 pandemic turns out to be larger in terms of new cases per testing than the first wave. Quarantine fatigue contributes to the viral transmission. Governments are forced to implement larger than localized shutdowns involving key economic sectors and urban areas in late 2020. This second round of large confinement measures cripple consumer, business and market confidence. The larger amount of structural damage taking the form of business closures and permanent job losses contributes to the deterioration in economic and financial conditions in late 2020, creating a W-shaped scenario. Insolvencies rise, contributing to a decline in home prices in 2021. Once the transmission rate is brought down, the recovery slowly resumes in 2021 because of structural damage. Furthermore, the distribution of a safe and efficient vaccine does not begin before mid-2021, delaying social immunity. Central banks announce additional unconventional easing measures, pushing down the yield curve closer to zero.

In the upside scenario, the virus transmission rate drops rapidly as new flare-ups are very concentrated. Furthermore, a group of efficient and safe vaccines are approved before year-end and distributed rapidly in 2021, eliminating the spread of the virus. Social immunity boosts consumer and business confidence and fuels market risk appetite in early 2021. Households spend precautionary savings faster. The most exposed sectors to the COVID-19 pandemic are able to restore activities over a shorter period. Monetary policy of North American central banks stays accommodative, widening the spread between short- and long-term interest rates.

### Sensitivity analysis of allowances for credit losses on non-impaired loans

*Scenarios*
The following table shows a comparison of the Bank's allowances for credit losses on non-impaired loans (Stages 1 and 2) under IFRS 9 as at October 31, 2020, including off-balance sheet exposures, with the estimated allowances for credit losses that would result if the base scenario was weighted at 100%.

| | Allowances for credit losses on non-impaired loans |
|---|---|
| **Under IFRS 9** | **$ 108,535** |
| **Simulations** | |
| 100% base scenario | **$ 73,289** |

*Migration*
The following table shows a comparison of the Bank's allowances for credit losses on non-impaired loans (Stages 1 and 2) under IFRS 9 as at October 31, 2020, including off-balance sheet exposures, with the estimated allowances for credit losses that would result if all these non-impaired loans were in Stage 1.

| | Allowances for credit losses on non-impaired loans |
|---|---|
| **Under IFRS 9** | **$ 108,535** |
| **Simulations** | |
| Non-impaired loans if they were all in stage 1 | **$ 81,209** |

## 7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

### Foreclosed assets

Foreclosed assets are repossessed non-financial assets where the Bank gains title, ownership, or possession of individual properties, such as real estate properties, which are managed for sale in an orderly manner with the proceeds used to reduce or repay any outstanding debt. The Bank does not generally occupy foreclosed properties for its business use. Foreclosed assets are recorded in other assets on the Consolidated Balance Sheet and are classified as held-for-sale. Foreclosed assets amounted to $7.1 million as at October 31, 2020 ($7.3 million as at October 31, 2019).

### Loans not recognized on balance sheet

*Canada Emergency Business Account Program*
Under the Canada Emergency Business Account (CEBA) Program, the Bank provides interest-free loans of up to $40,000 to its eligible business customers. The funding for the CEBA Program is provided to the Bank by the Government of Canada. In addition, all loans are guaranteed by the Government of Canada. As such, the Bank is not assuming risks related to the loans and only acts as an administrator of the CEBA Program. The Bank receives an administration fee to recover the costs to administer the program for the Government of Canada. Accordingly, loans issued under the program are not recognized on the Bank's Consolidated Balance Sheet, since the conditions of a qualifying pass-through arrangement have been met and the Bank has determined that substantially all risks and rewards of ownership of the loans have been transferred to the Canadian government. As at October 31, 2020, the Bank had provided 1,671 customers with CEBA loans and had funded $66.8 million in loans under the program.

### Sale of commercial loans

In 2019, the Bank sold commercial loans amounting to $105.4 million and recognized a net gain of nil in other income. No such sales occurred in 2020.

### Finance lease receivables

The Commercial loans line item includes net investment in leases of $961.6 million as at October 31, 2020 ($997.8 million as at October 31, 2019).

| | **2020** | 2019 |
|---|---|---|
| Minimum lease payments | **$ 1,041,281** | $ 1,083,525 |
| Unguaranteed residual values | **27,210** | 27,033 |
| Gross investment in leases | **1,068,491** | 1,110,558 |
| Unearned interest income | **(106,871)** | (112,748) |
| Net investment in leases | **961,620** | 997,810 |
| Unamortized deferred costs, security deposits, and other | **11,679** | 13,387 |
| | **$ 973,299** | $ 1,011,197 |

### Contractual maturities of finance lease receivables

The following table shows information about contractual maturity dates for finance lease receivables.

| | | | **2020** |
|---|---|---|---|
| | **Gross investment in leases** | **Unearned interest income** | **Net investment in leases** |
| **Receivable within one year** | **$ 389,851** | **$ 48,232** | **$ 341,619** |
| **Receivable within 1 to 5 years** | **664,922** | **57,965** | **606,957** |
| **Receivable after 5 years** | **13,718** | **674** | **13,044** |
| | **$ 1,068,491** | **$ 106,871** | **$ 961,620** |

| | | | 2019 |
|---|---|---|---|
| | Gross investment in leases | Unearned interest income | Net investment in leases |
| Receivable within one year | $ 386,414 | $ 51,346 | $ 335,068 |
| Receivable within 1 to 5 years | 709,680 | 60,825 | 648,855 |
| Receivable after 5 years | 14,464 | 577 | 13,887 |
| | $ 1,110,558 | $ 112,748 | $ 997,810 |

## 8. SECURITIZATION AND STRUCTURED ENTITIES

### 8.1 TRANSFER OF FINANCIAL ASSETS

The Bank primarily sells mortgage loans through the Canada Mortgage Bond (CMB) program and to third-party investors under the National Housing Act (NHA) Mortgage-Backed Securities (MBS) program set-up by the Canada Mortgage and Housing Corporation (CMHC), as well as through other multi-seller conduits set up by other Canadian banks.

#### CMHC programs

Under the NHA MBS program, the Bank issues marketable securities backed by insured eligible residential mortgage loans (the NHA MBS). These NHA MBS may be sold directly to investors or through the CMB program. CMB are CMHC guaranteed bonds issued through the Canada Housing Trust No. 1 (CHT), a special purpose trust.

NHA MBS are amortizing assets that pay back principal and interest cash flows on a monthly basis, while CMB provide investors with a fixed interest coupon bond with semi-annual interest payments and repayment of principal on specified maturity dates. To address this difference in cash flows for the CMB program, the CHT enters into master swap agreements with approved financial institutions (Swap Counterparties). Under the swap agreements, Swap Counterparties receive the monthly interest flows from the original NHA MBS and the Replacement Assets (see below), and in return provide the CHT with the regular interest payments required to pay out to investors under the terms of the CMB. In addition, under the swap agreements, the Swap Counterparties are responsible for reinvesting the monthly principal flows from the NHA MBS on behalf of the CHT. The Swap Counterparties may only carry out this reinvestment in AAA-rated mortgage-backed securities and Canada guaranteed eligible assets (the Replacement Assets). Simultaneously, these Swap Counterparties conclude similar swap agreements with the Bank. At the swap coupon settlement date, the Bank therefore pays/receives the difference between the amount collected from the original NHA MBS, as well as from the Replacement Assets, and the amount payable to investors under the terms of the CMB.

*Assets and debt related to securitization activities*

As the Bank continues to be exposed to the prepayment, interest rate and/or credit risk associated with the securitized mortgage loans, these securitization transactions do not meet derecognition criteria. Therefore, securitized mortgage loans remain on balance sheet and the related cash proceeds are accounted for as secured financing. The Replacement Assets are also recorded on balance sheet and considered pledged assets. Interest income is accrued on these assets as for the Bank's other similar assets.

The NHA MBS and CMB holders and the CHT have no recourse to other assets of the Bank in the event of failure of debtors to pay when due. The proceeds received from securitization transactions are recorded as debt related to securitization activities on the Consolidated Balance Sheet of the Bank. Interest accrued on the debt is based on the NHA MBS or CMB coupon related to the series and is classified in other liabilities as accrued interest payable.

Since the underlying cash flows associated with the swap agreements are captured through the on-balance sheet recognition of the underlying assets and the associated securitization liabilities, the swap agreements are not recognized at fair value on the Consolidated Balance Sheet and fair value changes are not recognized in the Consolidated Statement of Income. The underlying cash flows of the swap agreements are recognized on an accrual basis as described above. As at October 31, 2020, the notional amount of these swaps was $4.4 billion ($4.4 billion as at October 31, 2019).

#### Multi-seller conduit

The Bank sells 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 to other structured entities.

*Assets and debt related to securitization activities*

As the Bank provides credit enhancements for these transactions, they do not meet derecognition criteria and the securitized loans remain on balance sheet. However, as the Bank's rights, title and interest in the transferred loans are legally transferred to the structured entity, these are considered pledged assets. Interest income is accrued on these loans as for the Bank's other similar instruments. The structured entity has no recourse to other assets of the Bank in the event of failure of debtors to pay when due. The proceeds received are recorded as a debt related to a multi-seller conduit on the Consolidated Balance Sheet. Interest accrued on the debt is based on the commercial paper issued by the conduit to fund the purchases and is classified in other liabilities as accrued interest payable.

## 8. SECURITIZATION AND STRUCTURED ENTITIES (CONT'D)

### Financial assets not qualifying for derecognition and associated financial liabilities

The following table summarizes the carrying amounts of financial assets that do not qualify for derecognition and their associated financial liabilities included on the Consolidated Balance Sheet.

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Residential mortgage loans | $ | **8,722,637** | $ | 6,952,703 |
| Replacement Assets[1] | | **459,967** | | 844,926 |
| Debt related to securitization activities | $ | **(9,393,861)** | $ | (7,840,373) |

(1) Includes cash and deposits with banks, securities purchased under reverse repurchase agreements and securities acquired as part of the principal reinvestment account that is required to be maintained for the Bank to participate in the program.

The following table summarizes the securitization activities carried out by the Bank.

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Carrying amounts of residential mortgage loans transferred during the year related to new financing | $ | **3,424,296** | $ | 2,029,681 |
| Carrying amounts of residential mortgage loans transferred during the year as Replacement Assets | $ | **976,359** | $ | 378,407 |

In addition, as at October 31, 2020, the Bank has also securitized other residential mortgage loans for a total amount of $345.5 million ($530.2 million as at October 31, 2019) as part of the NHA MBS program, which were not subsequently sold. The resulting NHA MBS are presented as part of residential mortgage loans. These NHA MBS were pledged as collateral with the Bank of Canada, refer to Note 30 for further details.

### Financial assets qualifying for derecognition

In 2020, the Bank securitized a pool of $54.2 million mortgage loans with closed prepayment features under the NHA MBS program. As the Bank did not retain substantially all the risks and rewards related to this transferred pool of residential mortgages, the related loans were derecognized from the Consolidated Balance Sheet and a gain of $1.1 million was recognized in the Consolidated Statement of Income under Other income. The securitization retained interest and the servicing liability recorded were not significant.

### 8.2 STRUCTURED ENTITIES SECURITIZATON VEHICLES

In the ordinary course of business, the Bank enters into transactions with structured entities as part of securitization programs to obtain alternative sources of funding. The Bank sells personal loans and finance lease receivables to two intermediate partnerships, B2B Securitization Limited Partnership and LBC Leasing Limited Partnership (the Partnerships), respectively. To fund these purchases, the Partnerships issue interest-bearing liabilities to securitization conduits of other Canadian banks. These Partnerships are consolidated as the Bank holds 100% of the rights, has the ability to direct the relevant activities and can exercise power to affect returns. The interest-bearing liabilities issued by the Partnerships are recorded as debt related to securitization activities involving structured entities.

### Financial assets securitized through structured entities

The following table summarizes the carrying amounts of financial assets securitized through other structured entities that do not qualify for derecognition and their associated financial liabilities included in the Consolidated Balance Sheet.

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Personal loans | $ | **1,149,677** | $ | 1,087,058 |
| Commercial loans[1] | | **430,782** | | 746,259 |
| Debt related to securitization activities involving structured entities | $ | **(790,636)** | $ | (1,072,960) |

(1) The Bank securitizes finance lease receivables which are included in the Commercial loans line item.

The following table summarizes the activities carried out by the Bank's consolidated structured entities.

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Carrying amounts of personal loans transferred during the year | $ | **250,000** | $ | 253,307 |
| Carrying amounts of finance lease receivables transferred during the year | $ | **—** | $ | 409,572 |

## 9. PREMISES AND EQUIPMENT

| | Right-of-use assets[1] | Premises and leasehold improvements | Equipment and furniture | Computer hardware | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| As at October 31, 2018 | n/a | $ 98,052 | $ 27,205 | $ 31,419 | $ 156,676 |
| Additions | n/a | 3,452 | 389 | 1,657 | 5,498 |
| Disposals | n/a | (1,095) | — | — | (1,095) |
| Impairment | n/a | (1,771) | (2,701) | (30) | (4,502) |
| As at October 31, 2019 | n/a | 98,638 | 24,893 | 33,046 | 156,577 |
| Impact of adoption of IFRS 16, *Leases*[1] | 139,450 | — | — | — | 139,450 |
| As at November 1, 2019 | 139,450 | 98,638 | 24,893 | 33,046 | 296,027 |
| Additions | **3,507** | **6,198** | **966** | **613** | **11,284** |
| Disposals | **(756)** | **—** | **—** | **—** | **(756)** |
| Other[2] | **(6)** | **—** | **1** | **3** | **(2)** |
| Impairment | **(2,265)** | **(4,379)** | **(2,302)** | **(129)** | **(9,075)** |
| **As at October 31, 2020** | **$ 139,930** | **$ 100,457** | **$ 23,558** | **$ 33,533** | **$ 297,478** |
| | | | | | |
| **Accumulated depreciation** | | | | | |
| As at October 31, 2018 | n/a | $ 27,096 | $ 24,594 | $ 24,025 | $ 75,715 |
| Depreciation | n/a | 5,222 | 700 | 1,223 | 7,145 |
| Disposals | n/a | (434) | — | — | (434) |
| Other[2] | n/a | — | — | 1 | 1 |
| Impairment | n/a | (1,102) | (2,520) | (30) | (3,652) |
| As at October 31, 2019 | n/a | 30,782 | 22,774 | 25,219 | 78,775 |
| Depreciation | **16,861** | **5,859** | **640** | **1,548** | **24,908** |
| Disposals | **(756)** | **—** | **—** | **—** | **(756)** |
| Other[2] | **—** | **(2)** | **(2)** | **(4)** | **(8)** |
| Impairment | **—** | **(2,949)** | **(2,256)** | **(105)** | **(5,310)** |
| **As at October 31, 2020** | **$ 16,105** | **$ 33,690** | **$ 21,156** | **$ 26,658** | **$ 97,609** |
| | | | | | |
| **Carrying amount** | | | | | |
| As at October 31, 2019 | n/a | $ 67,856 | $ 2,119 | $ 7,827 | $ 77,802 |
| Impact of adoption of IFRS 16, *Leases*[1] | 139,450 | — | — | — | 139,450 |
| As at November 1, 2019 | $ 139,450 | $ 67,856 | $ 2,119 | $ 7,827 | $ 217,252 |
| **As at October 31, 2020** | **$ 123,825** | **$ 66,767** | **$ 2,402** | **$ 6,875** | **$ 199,869** |

(1) The adoption of IFRS 16 as at November 1, 2019 resulted in the recognition of real estate operating leases on the Consolidated Balance Sheet as right-of-use assets. Refer to Note 5 for further details.

(2) Other includes the impact of foreign currency translation.

Premises and equipment as at October 31, 2020 include $0.1 million pertaining to premises under construction yet to be amortized ($1.6 million as at October 31, 2019).

### Impairment

Premises and equipment are tested for impairment only when there are indicators of impairment. Refer to Note 10 for further details. Other impairment charges amounting to $3.8 million were also recorded in 2020 ($0.9 million in 2019)

## 10. SOFTWARE AND OTHER INTANGIBLE ASSETS

| | Software | Acquisition related intangible assets | Other intangible assets | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| As at October 31, 2018 | $ 289,566 | $ 112,525 | $ 197,666 | $ 599,757 |
| Additions | 10,804 | 3 | 52,310 | 63,117 |
| Other | (11) | 48 | — | 37 |
| As at October 31, 2019 | 300,359 | 112,576 | 249,976 | 662,911 |
| Additions | **6,644** | **4** | **23,269** | **29,917** |
| Other | **(8)** | **958** | **—** | **950** |
| **As at October 31, 2020** | **$ 306,995** | **$ 113,538** | **$ 273,245** | **$ 693,778** |
| **Accumulated amortization** | | | | |
| As at October 31, 2018 | $ 196,116 | $ 30,037 | $ 6,259 | $ 232,412 |
| Amortization | 15,451 | 14,964 | 9,034 | 39,449 |
| Other | (11) | (101) | — | (112) |
| As at October 31, 2019 | 211,556 | 44,900 | 15,293 | 271,749 |
| Amortization | **15,790** | **14,886** | **10,914** | **41,590** |
| Other | **(5)** | **185** | **—** | **180** |
| **As at October 31, 2020** | **$ 227,341** | **$ 59,971** | **$ 26,207** | **$ 313,519** |
| **Carrying amount** | | | | |
| As at October 31, 2019 | $ 88,803 | $ 67,676 | $ 234,683 | $ 391,162 |
| **As at October 31, 2020** | **$ 79,654** | **$ 53,567** | **$ 247,038** | **$ 380,259** |

Acquisition related intangible assets include contractual relationships with advisors and brokers associated to the Personal segment, as well as with vendor-dealers associated to the Business Services segment. Acquisition related intangible assets also include core deposit intangibles associated to the Personal segment.

Other intangible assets under development amount to $71.4 million as at October 31, 2020 ($48.7 million as at October 31, 2019) and are not being amortized. These include developments not completed to the core banking system amounting to $19.1 million as at October 31, 2020 ($0.8 million as at October 31, 2019) and the program to implement the Basel Advanced Internal Ratings Based (AIRB) approach to credit risk amounting to $52.3 million as at October 31, 2020 ($47.9 million as at October 31, 2019).

Software includes $7.4 million pertaining to projects under development yet to be amortized as at October 31, 2020 ($25.4 million as at October 31, 2019).

### Impairment

Software and other intangible assets are tested for impairment when there are indicators of impairment, except for assets under development which are tested for impairment annually. Since software and other intangible assets do not generate cash flows that are largely independent from other assets or group of assets, they are tested for impairment at the CGU level.

In 2020, indicators of impairment were identified for the Bank's long-lived assets as a result of the deterioration in economic conditions caused by the spread of the COVID-19 pandemic and the related changes to the interest rate environment. As such, the carrying amount of these assets was reviewed for impairment at the CGU level as part of the annual impairment test of goodwill. Refer to Note 11 for details.

In 2019, indicators of impairment were identified for the Retail Services CGU's long-lived assets (prior to the CGU modification, see Note 32 which explains this modification). As such, the carrying amount of these assets was reviewed for impairment at the CGU level.

In both 2020 and 2019, management determined that the estimated recoverable amount of the tested CGUs was in excess of the carrying amount. As a result, no impairment charge on the long-lived assets of these CGUs was recognized. Changes in estimates and assumptions could significantly impact the impairment test results.

## 11. GOODWILL

| | Personal CGU[1] | Business Services CGU | Total |
|---|---|---|---|
| As at October 31, 2018 | $ 34,853 | $ 81,764 | $ 116,617 |
| Impact of foreign currency translation | — | 32 | 32 |
| As at October 31, 2019 | $ 34,853 | $ 81,796 | $ 116,649 |
| Impact of foreign currency translation | **—** | **637** | **637** |
| **As at October 31, 2020** | **$ 34,853** | **$ 82,433** | **$ 117,286** |

(1) Goodwill allocated to the Personal CGU as at October 31, 2019 was allocated to the B2B Bank CGU prior to that date, see below and Notes 3 and 32 for further details.

### Impairment

The Bank tests goodwill for impairment on an annual basis and whenever there are events or changes in circumstances which indicate that the carrying amount of a CGU may not be recoverable. No goodwill impairment losses were recognized in 2020 and 2019.

Goodwill as at October 31, 2020 has been allocated to two CGUs:

- the Personal CGU, which caters to the financial needs of retail clients; and
- the Business Services CGU, which encompasses services provided to small and medium-sized enterprises across Canada and the United States.

These CGUs are also operating segments.

To perform the 2019 annual impairment test, goodwill was allocated to the previous B2B Bank CGU and the Business Services CGU. As of October 31, 2019, the CGUs and operating segments of the Bank have been modified to reflect the Bank's current operating model, as further detailed in Note 32. To perform the 2020 annual impairment test, goodwill was allocated to the Personal CGU and the Business Services CGU.

The recoverable amount of the CGUs was determined based on the value in use approach using a discounted cash flow method. The significant key assumptions included the forecasts of cash flows based on financial plans approved by the Board of Directors covering a four-year period, a terminal growth rate of 2.0% in 2020 (2.0% in 2019) based on projected economic growth, and an after-tax discount rate of 9.0% in 2020 (9.8% in 2019) based on the bank-wide cost of capital and further adjusted to reflect the risks specific to the CGUs. The estimated recoverable amount was above the CGU's carrying amount. If alternative reasonably possible changes in key estimates and assumptions were applied, the result of the impairment test could significantly differ.

## 12. OTHER ASSETS

| | **2020** | 2019 |
|---|---|---|
| Cheques and other items in transit | **$ 133,182** | $ 316,953 |
| Accrued interest receivable | **82,401** | 117,049 |
| Cash reserve deposits | **64,132** | 73,379 |
| Accounts receivable[1] | **35,455** | 53,010 |
| Assets under operating leases (Note 29) | **9,366** | 11,546 |
| Defined benefit plan assets (Note 19) | **—** | 3,102 |
| Prepaid expenses and other items | **156,483** | 193,767 |
| | **$ 481,019** | $ 768,806 |

(1) As at October 31, 2020, allowances for credit losses for accounts receivable amounted to $1.8 million ( $0.1 million as at October 31, 2019).

## 13. DEPOSITS

| | | | | 2020 |
|---|---|---|---|---|
| | Demand[1] | Notice[2] | Term[3] | Total |
| Personal | $ 131,219 | $ 5,111,281 | $ 13,553,650 | $ 18,796,150 |
| Business, banks and other[4] | 1,183,198 | 458,978 | 3,481,877 | 5,124,053 |
| | $ 1,314,417 | $ 5,570,259 | $ 17,035,527 | $ 23,920,203 |

| | | | | 2019 |
|---|---|---|---|---|
| | Demand[1] | Notice[2] | Term[3] | Total |
| Personal | $ 112,576 | $ 4,020,366 | $ 15,614,318 | $ 19,747,260 |
| Business, banks and other[4] | 1,138,037 | 480,967 | 4,286,340 | 5,905,344 |
| | $ 1,250,613 | $ 4,501,333 | $ 19,900,658 | $ 25,652,604 |

(1) Demand deposits consist of deposits in respect of which the Bank is not authorized to require notice prior to withdrawal by customers. These deposits primarily consist of chequing accounts.

(2) Notice deposits consist of deposits in respect of which the Bank may legally require a withdrawal notice. These deposits generally consist of savings accounts.

(3) Term deposits include deposits maturing at a specific date, particularly term deposits and guaranteed investment certificates, as well as senior unsecured notes.

(4) In October 2019, the Bank has signed a credit facility agreement for an amount up to $ 250 million secured by insured residential mortgage loans and maturing in August 2021, of which nil was drawn as at October 31, 2020 (nil as at October 31, 2019).

## 14. OTHER LIABILITIES

| | 2020 | 2019 |
|---|---|---|
| Accrued interest payable | $ 472,472 | $ 485,941 |
| Lease liabilities (Notes 5 and 30) | 160,662 | n/a |
| Cheques and other items in transit | 132,600 | 136,434 |
| Defined benefit plan liabilities (Note 19) | 41,749 | 37,579 |
| Credit card loyalty points programs liability | 25,952 | 24,855 |
| Accounts payable, accrued expenses and other items | 653,739 | 522,758 |
| | $ 1,487,174 | $ 1,207,567 |

## 15. DEBT RELATED TO SECURITIZATION ACTIVITIES

| | 2020 | 2019 |
|---|---|---|
| **Debt related to securitization activities** | | |
| Debt related to CMB and NHA MBS transactions | 8,982,453 | $ 7,012,237 |
| Debt related to multi-seller conduits | 411,408 | 828,136 |
| | $ 9,393,861 | $ 7,840,373 |
| **Debt related to securitization activities involving structured entities** | | |
| Debt related to securitization activities involving structured entities | 790,636 | 1,072,960 |
| | $ 10,184,497 | $ 8,913,333 |

Refer to Note 8 for further details about securitization and structured entities.

## 16. SUBORDINATED DEBT

### Issued and outstanding

| | | | 2020 | 2019 |
|---|---|---|---|---|
| Maturity | Interest rate | Earliest par value redemption date | Carrying amount | Carrying amount |
| June 2027 | 4.25% | June 22, 2022[1] | $ 350,000 | $ 350,000 |
| Unamortized issuance costs | | | (558) | (899) |
| | | | $ 349,442 | $ 349,101 |

(1) Non-Viability Contingent Capital (NVCC) (subordinated indebtedness) (the "Notes"). The Bank may, at its option, with the prior approval of OSFI, redeem the Notes on or after June 22, 2022, at par, in whole at any time or in part from time to time, on not less than 30 days and not more than 60 days notice to registered holders. The NVCC provision is necessary for the Notes to qualify as Tier 2 Capital and as such, the Bank may be required to convert the Notes into a variable number of common shares upon the occurrence of a non-viability trigger event.

## 17. SHARE CAPITAL

### Authorized share capital

Preferred shares – Unlimited number of Class A Preferred Shares, without par value, issuable in series.

Common shares – Unlimited number of common shares, without par value.

### Preferred shares

| | Redemption and conversion date in effect as of[1][2] | Redemption price per share ($)[1] | Convertible into preferred shares[2] | Dividend per share ($)[3] | Reset premium |
|---|---|---|---|---|---|
| | | | | | 2020 |
| **Non-Cumulative Class A Preferred Shares issued and outstanding** | | | | | |
| Series 13[4] | June 15, 2024[5][6] | 25.00 | Series 14 | 0.2577[7] | 2.55 % |
| Series 15[4] | June 15, 2021[5][6] | 25.00 | Series 16 | 0.3656[7] | 5.13 % |
| **Non-Cumulative Class A Preferred Shares authorized but not issued** | | | | | |
| Series 14[4] | June 15, 2024[5] | 25.00[8] | Series 13 | Floating rate[9] | 2.55 % |
| Series 16[4] | June 15, 2021[5] | 25.00[8] | Series 15 | Floating rate[9] | 5.13 % |

(1) Redeemable in cash at the Bank's option, subject to the provisions of the Bank Act and to the prior consent of OSFI. Redemption prices are increased by all the declared and unpaid dividends on the preferred shares to the date fixed for redemption.
(2) Convertible at the option of the holders of preferred shares, subject to the automatic conversion provisions and the right of the Bank to redeem those shares.
(3) Fixed non-cumulative preferential cash dividends payable quarterly, as and when declared by the Board of Directors.
(4) The Bank may be required to convert any or all of the preferred shares into a variable number of common shares upon the occurrence of a non-viability trigger event.
(5) Redeemable as of the date fixed for redemption and on the same date every five years thereafter.
(6) Convertible as of the date fixed for conversion and on the same date every five years thereafter, subject to certain conditions.
(7) The dividend amount is set for the initial period ending on the date fixed for redemption. Thereafter, these shares carry a non-cumulative quarterly fixed dividend in an amount per share determined by multiplying the rate of interest equal to the sum of the 5-year Government of Canada bond yield on the applicable fixed-rate calculation date by $25.00, plus the reset premium.
(8) As of the date fixed for redemption, the redemption price will be $25.00 per share. Thereafter, on the same date every five years, the redemption price will be $25.00 per share.
(9) The dividend period begins as of the date fixed for redemption. The amount of the floating quarterly non-cumulative dividend is determined by multiplying the rate of interest equal to the sum of the 90-day Government of Canada treasury bill yield on the floating rate calculation date by $25.00, plus the reset premium.

*Issued and outstanding*
The variation and outstanding number and amount of preferred shares were as follows.

| | 2020 Number of shares | 2020 Amount | 2019 Number of shares | 2019 Amount |
|---|---|---|---|---|
| **Non-Cumulative Class A Preferred Shares** | | | | |
| Series 13 | | | | |
| Outstanding at beginning and end of period | **5,000,000** | **$ 122,071** | 5,000,000 | $ 122,071 |
| Series 15 | | | | |
| Outstanding at beginning and end of period | **5,000,000** | **$ 121,967** | 5,000,000 | $ 121,967 |
| | **10,000,000** | **$ 244,038** | 10,000,000 | $ 244,038 |

There were no outstanding Non-Cumulative Class A Preferred Shares Series 14 and Series 16 as at October 31, 2020 (no outstanding Non-Cumulative Class A Preferred Shares Series 14 and Series 16 as at October 31, 2019).

*Conversion of preferred shares*
On June 17, 2019, none of the outstanding Non-Cumulative Class A Preferred Shares, Series 13 were converted into Non-Cumulative Class A Preferred Shares Series 14. As a result, no Non-Cumulative Class A Preferred Shares Series 14 were issued on June 17, 2019 and holders of the Non-Cumulative Class A Preferred Shares Series 13 retained their shares. The dividend rate for the Non-Cumulative Class A Preferred Shares Series 13 for the five-year period commencing on June 15, 2019, and ending on June 14, 2024, was set at 4.123% per annum.

## 17. SHARE CAPITAL (CONT'D)

### Common shares

*Issued and outstanding*
The variation and outstanding number and amounts of common shares were as follows.

| | | | 2020 | | | 2019 |
|---|---|---|---|---|---|---|
| | Number of shares | | Amount | Number of shares | | Amount |
| **Common shares** | | | | | | |
| Outstanding at beginning of year | **42,624,861** | **$** | **1,139,193** | 42,075,284 | $ | 1,115,416 |
| Issuance under the employee share purchase option plan | **1,670** | | **76** | — | | — |
| Issuance under the Shareholder Dividend Reinvestment and Share Purchase Plan | **611,400** | | **18,792** | 549,577 | | 23,836 |
| Net issuance costs[1] | **n/a** | | **1,427** | n/a | | (59) |
| | **43,237,931** | **$** | **1,159,488** | 42,624,861 | $ | 1,139,193 |

(1) Including a $1.4 million adjustment in 2020 related to a share issuance in 2017.

*Shareholder dividend reinvestment and share purchase plan*
The Bank offers a Shareholder Dividend Reinvestment and Share Purchase Plan (the "Plan") to eligible Canadian shareholders. Participation in the Plan is optional. Under the terms of the Plan, dividends on common and preferred shares are reinvested to purchase additional common shares of the Bank. Shareholders also have the opportunity to make optional cash payments to acquire additional common shares. At the option of the Bank, the common shares may be issued from the Bank's treasury at an average market price with a discount of up to 5%, or from the open market at market price. In 2020, 611,400 common shares (549,577 in 2019) were legally issued from Corporate Treasury at a 2% discount (2% discount in 2019).

### Declared dividends

| | | | | 2020 | | | | 2019 |
|---|---|---|---|---|---|---|---|---|
| | | Dividend per share | | Dividends declared | | Dividend per share | | Dividends declared |
| **Non-Cumulative Class A Preferred Shares** | | | | | | | | |
| Series 13 | **$** | **1.031** | **$** | **5,153** | $ | 1.064 | $ | 5,319 |
| Series 15 | **$** | **1.463** | | **7,313** | $ | 1.463 | | 7,313 |
| Total preferred shares | | | **$** | **12,466** | | | $ | 12,632 |
| Common shares | **$** | **2.14** | **$** | **91,630** | $ | 2.62 | $ | 110,737 |

On November 3, 2020, the Board of Directors declared regular dividends on the various series of preferred shares to shareholders of record on December 7, 2020. On December 4, 2020, the Board of Directors declared a dividend of $0.40 per common share, payable on February 1, 2021, to shareholders of record on January 4, 2021.

### Restrictions on the payment of dividends

The Bank is prohibited by the Bank Act from declaring or paying any dividends on its preferred shares or common shares if there are reasonable grounds for believing that, in so doing, the Bank would not comply with capital adequacy and liquidity regulations or related guidance provided by OSFI.

The Bank's ability to pay common share dividends is also restricted by the terms of the outstanding preferred shares. These terms provide that the Bank may not pay dividends on its common shares at any time without the approval of holders of the outstanding preferred shares, unless all dividends that are then payable have been declared and paid or set apart for payment.

### Capital management

Management seeks to maintain an adequate level of capital that considers the Bank's targeted capital ratios and internal assessment of required capital that is aligned with the Bank's risk appetite, strategic plan and shareholders' expectations; is consistent with the Bank's targeted credit ratings; underscores the Bank's capacity to cover risks related to its business operations; provides depositor confidence; and produces an acceptable return for shareholders. Management oversees capital adequacy on an ongoing basis.

The Board of Directors, on the recommendation of the Risk Management Committee, approves annually several capital-related documents, including the Capital Management and Adequacy Policy, the Internal Capital Adequacy Assessment Process, the Stress Testing Program, as well as the Capital Plan. It further reviews capital adequacy on a quarterly basis.

## 17. SHARE CAPITAL (CONT'D)

*Regulatory capital*

OSFI requires banks to meet minimum risk-based capital ratios drawn on the Basel Committee on Banking Supervision (BCBS) capital framework, commonly referred to as Basel III. Under OSFI's "Capital Adequacy Requirements" guideline, the Bank must maintain minimum levels of capital depending on various criteria. Tier 1 capital, the most permanent and subordinated forms of capital, consists of two components: Common Equity Tier 1 capital and Additional Tier 1 capital. Tier 1 capital must be more predominantly composed of common equity to ensure that risk exposures are backed by a high-quality capital base. Tier 2 capital consists of supplementary capital instruments and contributes to the overall strength of a financial institution as a going concern.

Under OSFI's guideline, minimum Common Equity Tier 1, Tier 1 and Total capital ratios are set at 7.0%, 8.5% and 10.5% respectively including a 2.5% capital conservation buffer.

Under OSFI's Leverage Requirements Guideline, Federally regulated deposit-taking institutions are expected to maintain a Basel III leverage ratio that meets or exceeds 3% at all times. The leverage ratio is defined as the Tier 1 capital divided by unweighted on-balance sheet assets and off-balance sheet commitments, derivatives and securities financing transactions, as defined within the requirements.

The Bank has complied with regulatory capital requirements throughout the year ended October 31, 2020.

Regulatory capital is detailed below.

| | **2020** | 2019 |
|---|---|---|
| Common shares | **$ 1,159,488** | $ 1,139,193 |
| Retained earnings | **1,152,973** | 1,161,668 |
| Accumulated other comprehensive income, excluding cash flow hedge reserve | **8,622** | (102) |
| Share-based compensation reserve | **2,527** | 1,815 |
| Transitional arrangements for expected credit losses in response to COVID-19[1] | **22,976** | n/a |
| Deductions from Common Equity Tier 1 capital[2] | **(453,507)** | (461,192) |
| Common Equity Tier 1 capital | **1,893,079** | 1,841,382 |
| Qualifying preferred shares | **244,038** | 244,038 |
| Additional Tier 1 capital | **244,038** | 244,038 |
| Tier 1 capital | **2,137,117** | 2,085,420 |
| Qualifying subordinated debt | **349,442** | 349,101 |
| Collective allowances | **85,978** | 66,052 |
| Deductions from Tier 2 capital[3] | **(1,325)** | (3,465) |
| Tier 2 capital | **434,095** | 411,688 |
| Total capital | **$ 2,571,212** | $ 2,497,108 |
| Common Equity Tier 1 capital ratio | **9.6 %** | 9.0 % |
| Tier 1 capital ratio | **10.9 %** | 10.2 % |
| Total capital ratio | **13.1 %** | 12.2 % |

(1) Represents ECL transitional arrangements provided by OSFI as detailed below.
(2) Comprised of deductions for software and other intangible assets, goodwill, pension plan assets and other.
(3) Investments in own Tier 2 capital instruments.

*Transitional arrangements for expected credit losses in response to COVID-19*

In April 2020, OSFI announced several measures to afford financial institutions further flexibility in addressing current conditions due to COVID-19, including notably:

- treating as performing loans all loans where payment deferrals are granted by the financial institution, up to a maximum of 6 months; and
- recognizing as Common Equity Tier 1 capital a portion of the credit allowances that would otherwise be included in Tier 2 capital.

The Bank has applied these relief measures as of April 30, 2020. The adjustment to the Common Equity Tier 1 capital ratio will be dynamically measured each quarter as the increase in Stage 1 and Stage 2 expected credit loss allowances relative to the baseline level. The baseline level is the amount of Stage 1 and Stage 2 allowances as at the quarter ending January 31, 2020. This increased amount is adjusted for tax effects and subject to a scaling factor that will decrease over time. The scaling factor was set at 70% in fiscal 2020, and will be 50% in fiscal 2021 and 25% in fiscal 2022.

## 18. SHARE-BASED COMPENSATION

### Share purchase option plan

*Old Stock Option Purchase Plan*
The Old Stock Option Purchase Plan was offered to members of the Bank's senior management. Under this plan, the exercise price of options for the purchase of common shares must not be less than the market prices of such shares immediately prior to the grant date. The right to exercise the options vests gradually over a maximum five-year period and the options may be exercised at any time up to ten years after they have been granted. The Bank reserved 1,600,000 common shares for the potential exercise of options under this plan, of which nil were still available as at October 31, 2020 (nil as at October 31, 2019).

Information relating to outstanding number of options under the Old Stock Option Purchase Plan is as follows.

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Number of options** | **Exercise price** | Number of options | Exercise price |
| Outstanding at beginning of year | **124,962** | **$ 38.97** | 124,962 | $ 38.97 |
| Forfeited | **(39,959)** | **38.97** | — | — |
| Expired | **(13,320)** | **38.97** | — | — |
| Outstanding at end of year | **71,683** | **$ 38.97** | 124,962 | $ 38.97 |
| Exercisable at end of year | **—** | **n/a** | — | n/a |

*New Stock Option Plan*
In December 2018, the Bank established the New Stock Option Plan. The New Stock Option Plan was approved at the Annual General Meeting of shareholders on April 9, 2019. The terms and conditions of the New Stock Option Plan govern the stock options granted by the Board of Directors described thereafter.

Officers, senior executives and other employees of the Bank or its subsidiaries are eligible participants in the New Stock Option Plan. Under this plan, the exercise price of options for the purchase of common shares cannot be below the market value of the Bank's share at the date of grant. Stock options granted will vest 50% after three years and 50% after four years and the options may be exercised after vesting at any time up to ten years after they have been granted. The Bank reserved 1,666,000 common shares under this plan, of which 660,657 were still available as at October 31, 2020 (1,282,674 as at October 31, 2019) .

Information relating to outstanding number of options under the New Stock Option Plan is as follows.

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted-average exercise price** | Number of options | Exercise price |
| Outstanding at beginning of year | **375,128** | **$ 38.97** | — | $ — |
| Granted | **622,018** | **38.11** | 383,326 | 38.97 |
| Forfeited | **(279,830)** | **41.37** | (8,198) | 38.97 |
| Exercised[1] | **(1,670)** | **38.97** | — | — |
| Outstanding at end of year | **715,646** | **$ 37.28** | 375,128 | $ 38.97 |
| Exercisable at end of year | **—** | **n/a** | — | n/a |

(1) In 2020, 1,670 common shares were issued under the the New Stock Option Plan for a cash consideration of $0.1 million as part of a particular agreement with an employee.

## 18. SHARE-BASED COMPENSATION (CONT'D)

Information relating to exercise prices under the New Stock Option Plan is as follows.

| | 2020 | |
|---|---|---|
| Exercice price | Number of options outstanding | Weighted-average remaining contractual life (years) |
| $26.21[1] | 198,481 | 10.0 |
| $38.97 | 236,450 | 8.1 |
| $43.68 | 280,715 | 9.1 |
| | 715,646 | 9.0 |

(1) Includes preliminary estimates related to this stock option award that was concluded at the end of the year and for which the final determination of the number of options and their fair value will be finalized in December 2020.

*Fair value and assumptions related to the stock options valuations*
The weighted-average fair value of the fiscal 2020 and 2019 stock option grants was estimated using the following assumptions.

| | 2020 grant | 2019 grant |
|---|---|---|
| Weighted-average fair value of options granted[1] | $ 4.80 | $ 6.78 |
| Share price at grant date | $ 38.11 | $ 40.81 |
| Risk-free interest rate | 1.30 % | 1.61 % |
| Expected life of options | 8 years | 8 years |
| Expected volatility[2] | 20 % | 22 % |
| Expected dividend yield | 5.13 % | 5.20 % |

(1) Estimated using the Black-Scholes model, as well as the assumptions presented in the above table. The information presented for 2020 includes preliminary estimates related to a stock option award that was concluded at the end of the year and for which the final determination of the number of options and their fair value will be finalized in December 2020.
(2) Expected volatility is extrapolated from the implied volatility of the Bank's share price and observable market inputs, which are not necessarily representation of actual results.

### PERFORMANCE-BASED SHARE UNIT PLANS

*Performance-based share units*
Effective November 1, 2018, the Bank modified the characteristics of its performance-based share unit (PSU) plan for eligible members of its senior management. All rights to the new PSUs vest over three years with no guaranteed minimum vesting. The number of units vesting will be based on the Bank's total shareholder return relative to the average of a peer group of Canadian financial institutions and on the adjusted return on equity of the Bank relative to budgets. During the vesting period, dividend equivalents accrue to the participants in the form of additional share units. All PSUs are cash settled at fair value at the maturity date. A deferred version of the plan exists under which the participant is paid on termination of employment rather than at the end of the three-year period.

The following table summarizes the Bank's PSU plan activities.

| Performance-based share units | Number of units granted | Value of units granted | Vesting date |
|---|---|---|---|
| **2020** | **113,956** | **$ 45.70** | **December 2022** |
| 2019 | 130,620 | $ 40.88 | December 2021 |

The number of units outstanding as at October 31, 2020 was 606,689 of which 243,018 units were fully vested under the deferred version of the plan (590,574 units as at October 31, 2019 of which 204,615 units were fully vested).

*Transformation performance-based share units*
The Bank's Transformation PSU incentive program for certain members of its senior management is linked to the successful execution of its transformation plan. The rights to these PSUs granted at the beginning of 2018 vest after three years and only if the Bank attains certain performance targets at the end of fiscal 2020. The number of Transformation PSUs outstanding was 25,477 as at October 31, 2020 (30,366 as at October 31, 2019).

## 18. SHARE-BASED COMPENSATION (CONT'D)

### RESTRICTED SHARE UNIT PLANS

The Bank offers a restricted share unit (RSU) plan to certain members of its senior management. Under the plan, 50% of the annual bonus otherwise payable to an eligible employee, under the Bank's short-term incentive compensation program, can be withheld and converted into fully vested restricted share units at the employees' option. The Bank undertakes to grant additional RSUs equal to 60% of the withheld bonus. These additional units vest at the end of the three-year period following their award. A deferred version of the plan exists under which the participant is paid on termination of employment rather than at the end of the three-year period.

The Bank also offers a RSU plan to certain employees of the capital markets sector. Under that plan, 30% of the annual bonus over a certain amount that would otherwise be payable to an eligible employee has to be withheld and converted into fully vested restricted share units. This plan does not provide for any employer contribution and a third of the restricted share units are redeemed at each of the first three anniversary dates of the grant.

During the vesting period, under both plans, dividend equivalents accrue to the participants in the form of additional share units. The following table summarizes the Bank's RSU plans activities.

**Restricted share units**

| | Plan | Number of units converted[1] | Number of units granted | | Value of units granted | Vesting date |
|---|---|---|---|---|---|---|
| **2020** | **Senior management** | **28,690** | **185,020** | **$** | **44.90** | **December 2022 to September 2023** |
| | **Capital markets** | **11,323** | **—** | **$** | **45.70** | **n/a** |
| 2019 | Senior management | 45,451 | 156,860 | $ | 40.95 | December 2021 |
| | Capital markets | 33,057 | — | $ | 40.88 | n/a |

(1) The number of units converted corresponds to the portion of annual bonuses converted in RSUs. These units are fully vested at grant date.

The number of units outstanding for the Senior management RSU plan as at October 31, 2020 was 503,086 of which 148,473 units were fully vested under the deferred version of the plan (471,808 units as at October 31, 2019 of which 244,082 units were fully vested). The number of units outstanding for the Capital markets RSU plan as at October 31, 2020 was 49,338, all of which were vested (72,143 units as at October 31, 2019, all of which were vested).

### DEFERRED SHARE UNIT PLAN

The Bank offers a deferred share unit plan to non-employee directors of the Bank. Under this plan, each non-employee director may choose to receive all or a percentage of his or her remuneration in the form of deferred share units which can be settled in cash or common shares. The deferred share units are converted when the holder steps down from the Board of Directors. In 2020, 2,584 deferred share units were redeemed and settled in cash (22,057 in 2019). In 2020, the Bank granted 34,294 deferred share units as compensation (28,064 units in 2019). As at October 31, 2020, there were 109,404 units (77,694 units in 2019) outstanding with a total value of $2.9 million ($3.5 million in 2019).

### EMPLOYEE SHARE PURCHASE PLAN

The Bank offers an employee share purchase plan. Under this plan, employees who meet the eligibility criteria can contribute up to 5% of their annual gross salary by way of payroll deductions. The Bank matches 30% of the employee contribution amount, up to a maximum of $1,500 per year. The Bank's contributions vest to the employee two years after each employee contribution. The Bank's contributions, totaling $0.7 million during fiscal 2020 ($0.7 million in 2019), are recognized in salaries and employee benefits.

#### Share-based compensation plan expense and related liability

The following table shows the expense related to share-based compensation plans, net of the effect of related hedging transactions.

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Expense arising from share-based compensation plans | **$** | **(6,975)** | $ | 18,709 |
| Effect of hedges | | **18,991** | | (4,522) |
| | **$** | **12,016** | $ | 14,187 |

With a view of reducing volatility in the share-based compensation plans' expense, the Bank enters into total return swap contracts with third parties, the value of which is linked to the Bank's share price. Changes in fair value of these derivative instruments partially offset the share-based compensation plans' expense related to the share price variations over the period in which the swaps are in effect. Refer to Note 26 for further details regarding the hedge of the share-based compensation plan using total return swap contracts.

The carrying amount of the liability relating to the cash-settled plans was $28.4 million as at October 31, 2020 ($47.3 million as at October 31, 2019). The intrinsic value of the total liability related to fully vested rights and units was $14.4 million as at October 31, 2020 ($27.1 million as at October 31, 2019).

## 19. POST-EMPLOYMENT BENEFITS

### Description of benefit plans

*Pension plans*
The Bank has a number of defined benefit pension plans, which in certain cases include a defined contribution portion, as well as defined contribution pension plans. The plans provide pension benefits to most of the Bank's employees. The defined benefit pension plans are based on years of service and final average salary at retirement time.

Pension plans are registered with OSFI and are subject to the federal Pension Benefits Standards Act, 1985. The Bank's Human Resources and Corporate Governance Committee of the Board has the responsibility to ensure that management implements appropriate internal oversight systems with a view to adequately manage pension plans in accordance with the laws and regulations in effect.

*Other group plans*
The Bank offers other post-employment benefits to its employees such as a salary continuance plan during maternity leave and the payment of group insurance plan premiums during a disability period or maternity leave. In addition, certain retired employees have other retirement benefits, including health and life insurance.

### Risks associated with pension plans

Pension plans expose the Bank to a broad range of risks. These risks are managed with the objective of meeting pension benefit obligations, while maintaining a reasonable risk profile for the Bank. The pension obligation is mainly subject to demographic and economic risks such as longevity improvements and salary inflation. In addition, the obligation is impacted by the discount rate. Pension plan assets are subject to market risks and more precisely to equity value, long-term interest rates and credit spreads. To manage risks associated with the pension obligation, the Bank monitors its plan benefits and makes adjustments with the objective of optimizing the overall employee benefits. Defined benefit pension plan assets are invested in order to meet pension obligations. To manage the predominant interest rate risk, the Bank has adopted a liability-driven investment policy. This approach provides more control over the plan's financial position by investing in assets that are correlated with liabilities and that allow a reduction in volatility. In addition, a portion of the plans' assets can be invested in other asset classes, such as common shares, emerging market equities, high-yield fixed income securities, private equity or debt investments, as well as other alternative investments to improve potential returns.

Factors taken into consideration in developing the asset allocation include but are not limited to the following:

i. the nature of the underlying benefit obligations, including the duration and term profile of the liabilities;

ii. the member demographics, including normal retirement age, terminations, and mortality;

iii. the financial position of the pension plans; and

iv. the diversification benefits obtained by the inclusion of multiple asset classes.

### Funding requirements

The Bank's pension plans are funded by both employee and employer contributions, and are determined based on the financial position and the funding policy of the plan. The employer contributions must be sufficient to cover the value of the obligations that currently accrue in the plan, including fees paid by the plan, as well as special contributions required to amortize any deficit. The Bank assumes all the risks and costs related to the defined benefit pension plans, including any deficit.

### Defined benefit plan measurement dates

The Bank measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at October 31 of each year. The most recent actuarial valuations were performed as at December 31, 2019 for all pension plans. The next required actuarial valuation for funding purposes will be as at December 31, 2020 for all funded plans.

## 19. POST-EMPLOYMENT BENEFITS (CONT'D)

### Defined benefit plan obligations

Changes in the present value of the defined benefit obligation are as follows.

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Pension plans** | **Other plans** | Pension plans | Other plans |
| **Change in defined benefit obligation** | | | | |
| Defined benefit obligation at beginning of year | **$ 619,538** | **$ 24,464** | $ 584,878 | $ 25,034 |
| Current service cost | **10,857** | **—** | 11,342 | 26 |
| Past service cost(1) | **1,267** | **—** | — | — |
| Interest expense | **18,304** | **621** | 22,088 | 786 |
| Benefits paid | **(39,478)** | **(1,095)** | (71,708) | (1,637) |
| Employee contributions | **504** | **—** | 1,685 | — |
| Curtailment gain(2) | **—** | **—** | (4,216) | (593) |
| Actuarial losses (gains) arising from changes in assumptions | | | | |
| Demographic | **—** | **—** | — | (1,073) |
| Economic | **25,627** | **716** | 76,143 | 1,921 |
| Actuarial gains arising from plan experience | **(3,844)** | **—** | (674) | — |
| Defined benefit obligation at end of year | **$ 632,775** | **$ 24,706** | $ 619,538 | $ 24,464 |

(1) Representing a $1.3 million charge in 2020 related to the pension plan of a former member of senior management.

(2) In 2019 the Bank streamlined its Quebec Retail Network and certain back-office and corporate functions as part of its retail branches optimization plan. These measures led to a reduction of the workforce and in the curtailment of one of the Bank's pension plans as well as other post-employment benefits. This curtailment resulted in a $4.8 million gain presented as restructuring charges (see Note 31).

### Defined benefit pension plan assets

Changes in fair value of pension plan assets are as follows.

| | 2020 | 2019 |
|---|---|---|
| **Change in fair value of pension plan assets** | | |
| Fair value of plan assets at beginning of year | **$ 609,525** | $ 573,469 |
| Interest income (at prescribed rate) | **17,904** | 21,701 |
| Actuarial gains arising from the difference between the actual return on plan assets and interest income | **15,016** | 67,251 |
| Administration costs (other than costs of managing plan assets) | **(1,483)** | (1,390) |
| Bank contributions | **13,744** | 18,517 |
| Employee contributions | **504** | 1,685 |
| Benefits paid | **(39,478)** | (71,708) |
| Fair value of plan assets at end of year | **$ 615,732** | $ 609,525 |

### Reconciliation of the funded status of the benefit plans to the amounts recorded in the Consolidated Financial Statements

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Pension plans** | **Other plans** | Pension plans | Other plans |
| Fair value of plan assets | **$ 615,732** | **$ —** | $ 609,525 | $ — |
| Defined benefit obligation | **632,775** | **24,706** | 619,538 | 24,464 |
| Funded status – plan deficit | **(17,043)** | **(24,706)** | (10,013) | (24,464) |
| Defined benefit plan assets included in other assets | **—** | **—** | 3,102 | — |
| Defined benefit plan liabilities included in other liabilities | **$ 17,043** | **$ 24,706** | $ 13,115 | $ 24,464 |

## 19. POST-EMPLOYMENT BENEFITS (CONT'D)

### Defined benefit plan costs recognized during the year

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Pension plans | Other plans | Pension plans | Other plans |
| **Amounts recognized in income** | | | | |
| Current service cost | $ 10,857 | $ — | $ 11,342 | $ 26 |
| Past service cost[1] | 1,267 | — | — | — |
| Administration costs (other than costs of managing plan assets) | 1,483 | — | 1,390 | — |
| Interest expense | 18,304 | 621 | 22,088 | 786 |
| Interest income (at prescribed rate) | (17,904) | — | (21,701) | — |
| Loss (gain) on short-term employee benefits | — | 58 | — | (911) |
| Curtailment gain[2] | — | — | (4,216) | (593) |
| | 14,007 | 679 | 8,903 | (692) |
| **Amounts recognized in other comprehensive income** | | | | |
| Actuarial losses (gains) on defined benefit obligation | 21,783 | 658 | 75,469 | 1,759 |
| Actuarial losses (gains) on plan assets | (15,016) | — | (67,251) | — |
| | 6,767 | 658 | 8,218 | 1,759 |
| Total defined benefit cost | $ 20,774 | $ 1,337 | $ 17,121 | $ 1,067 |

(1) Representing a $1.3 million charge in 2020 related to the pension plan of a former member of senior management.

(2) In 2019 the Bank streamlined its Quebec Retail Network and certain back-office and corporate functions as part of its retail branches optimization plan. These measures led to a reduction of the workforce and in the curtailment of one of the Bank's pension plans as well as other post-employment benefits. This curtailment resulted in a $4.8 million gain presented as restructuring charges (see Note 31).

The Bank expects to contribute $10.0 million to its defined benefit pension plans for the year ending October 31, 2021.

### Asset allocation of defined benefit pension plans

| | 2020 | 2019 |
|---|---|---|
| **Asset category** | | |
| Cash and cash equivalents[1] | $ 5,518 | $ 800 |
| Equity funds | | |
| Canada | 25,467 | 22,650 |
| United States | 3,819 | 15,913 |
| Other | 33,486 | 20,065 |
| Debt securities | | |
| Canadian governments and other public administrations | 53,687 | 48,532 |
| Corporate and other | 418,100 | 420,723 |
| Other | 75,655 | 80,842 |
| | $ 615,732 | $ 609,525 |

(1) Cash and cash equivalents consist of mainly Canada and U.S. treasury bills.

Equity funds included $0.2 million in equity securities of the Bank as at October 31, 2020 ($0.1 million as at October 31, 2019). As at October 31, 2020 and 2019, none of the plan assets were quoted in active markets.

### Significant assumptions for pension plans and other plans

| | 2020 | 2019 |
|---|---|---|
| **Weighted-average of assumptions to determine benefit obligation** | | |
| Discount rate at end of year | 2.71 % | 3.01 % |
| Rate of compensation increase | 2.75 % | 2.75 % |
| **Weighted-average of assumptions to determine benefit expense** | | |
| Discount rate - Current service | 3.08 % | 4.00 % |
| Discount rate - Interest expenses (income), net | 3.01 % | 3.94 % |
| Rate of compensation increase | 2.75 % | 2.75 % |

For 2020, the weighted-average financial duration of the pension plans was approximately 14.0 years (14.1 years for 2019).

## 19. POST-EMPLOYMENT BENEFITS (CONT'D)

To better reflect current service cost, a separate discount rate was determined to account for the timing of future benefit payments associated with the additional year of service to be earned by the plan's active participants. Since these benefits are, on average, being paid at a later date than the benefits already earned by participants as a whole, this method results in the use of a higher discount rate for calculating current service cost than that used to measure obligations where the yield curve is positively sloped.

### Assumed health care cost trend rates

| | 2020 | 2019 |
|---|---|---|
| Assumed annual rate of increase in the cost of health care benefits | 5.08 % | 5.08 % |
| Level to which it should decline and at which it is assumed to subsequently stabilize | 3.57 % | 3.57 % |
| Year that the rate is assumed to stabilize | 2040 | 2040 |

### Sensitivity analysis

Due to the long-term nature of post-employment benefits, there are significant uncertainties related to the recognition of balances surrounding the assumptions used.

Discount rates could have a significant impact on the defined benefit plan assets (liabilities) as well as, depending on the funding status of the plan, on pension plan and other post-employment benefit expenses. The following table summarizes the impact of a 0.25 percentage point change in this key assumption on the defined benefit obligation and cost for the year ended October 31, 2020.

| | Impact of a potential change of 0.25% to the discount rate on[1] | |
|---|---|---|
| | Obligation | Expense |
| Pension plans | $ 22,775 | $ 1,307 |
| Other plans | $ 619 | $ 12 |

(1) The sensitivities presented in this table should be used with caution, as the impact is hypothetical and changes in assumptions may not be linear.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The following table summarizes the impact of a one percentage point change in this key assumption on the defined benefit obligation and cost for the year ended October 31, 2020, with all other assumptions remaining constant.

| | 1% increase | 1% decrease |
|---|---|---|
| Increase (decrease) in total of service and interest expense | $ 161 | $ (163) |
| Increase (decrease) in defined benefit obligation | $ 1,255 | $ (1,093) |

### Expense for post-employment benefits

The total expense recognized for post-employment benefit plans was as follows.

| | 2020 | 2019 |
|---|---|---|
| Defined benefit pension plans[1] | $ 14,007 | $ 13,119 |
| Defined contribution pension plans | 8,034 | 7,991 |
| Other plans | 679 | (99) |
| Curtailment gain[2] | — | (4,809) |
| | $ 22,720 | $ 16,202 |

(1) Including $1.3 million charge in 2020 related to the pension plan of a senior management.

(2) In 2019 the Bank streamlined its Quebec Retail Network and certain back-office and corporate functions as part of its retail branches optimization plan. These measures led to a reduction of the workforce and in the curtailment of one of the Bank's pension plans as well as other post-employment benefits. This curtailment resulted in a $4.8 million gain presented as restructuring charges (see Note 31).

## 20. INCOME TAXES

### Deferred income taxes

Significant components of the Bank's deferred income tax assets and liabilities are as follows.

| | | **2020** | | 2019 |
|---|---|---|---|---|
| **Deferred income tax assets** | | | | |
| Lease liabilities | $ | **43,736** | | n/a |
| Allowances for loan losses | | **41,551** | | 21,474 |
| Non-capital losses | | **30,310** | | 852 |
| Deferred revenues | | **11,666** | | 13,944 |
| Defined benefit plan liabilities | | **11,053** | | 9,144 |
| Provisions | | **9,467** | | 12,335 |
| Amount related to share-based payments | | **7,286** | | 12,166 |
| Premises and equipment | | **2,572** | | 3,579 |
| Other temporary differences | | **6,938** | | 6,576 |
| | | **164,579** | | 80,070 |
| **Deferred income tax liabilities** | | | | |
| Leases | | **50,576** | | 18,819 |
| Other intangible assets | | **35,279** | | 38,725 |
| Right-of-use assets | | **33,057** | | n/a |
| Deferred charges | | **16,387** | | 21,638 |
| Derivatives | | **15,705** | | 7,599 |
| Software | | **6,606** | | 9,090 |
| Other temporary differences | | **86** | | 256 |
| | | **157,696** | | 96,127 |
| Deferred income taxes, net | $ | **6,883** | $ | (16,057) |

As at October 31, 2020, unused capital tax losses of $12.0 million ($19.0 million as at October 31, 2019) available to offset future capital gains were not recognized as deferred tax assets. The unused capital tax losses can be carried forward indefinitely.

As at October 31, 2020, the total amount of temporary differences associated with investments in foreign subsidiaries for which deferred tax liabilities have not been recognized was $285.1 million ($269.3 million as at October 31, 2019).

Net deferred income taxes reported in the Consolidated Balance Sheet are as follows.

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Deferred income tax assets | $ | **62,216** | $ | 37,045 |
| Deferred income tax liabilities | | **(55,333)** | | (53,102) |
| Deferred income taxes, net | $ | **6,883** | $ | (16,057) |

The components of deferred income tax expense (recovery) recorded in the Consolidated Statement of Income are as follows.

| | | **2020** | | 2019 |
|---|---|---|---|---|
| **Deferred income tax expense (recovery)** | | | | |
| Leases | $ | **31,758** | $ | 12,287 |
| Amount related to share-based payments | | **4,880** | | (4,655) |
| Lease liabilities | | **2,649** | | n/a |
| Premises and equipment | | **1,003** | | 906 |
| Provisions | | **67** | | (1,856) |
| Non-capital losses | | **(23,174)** | | (778) |
| Allowances for loan losses | | **(20,124)** | | 1,058 |
| Deferred charges | | **(5,250)** | | (11,321) |
| Right-of-use assets | | **(4,054)** | | n/a |
| Other intangible assets | | **(3,409)** | | 20,476 |
| Software | | **(2,484)** | | (3,172) |
| Other temporary differences | | **257** | | 1,227 |
| | $ | **(17,881)** | $ | 14,172 |

## 20. INCOME TAXES (CONT'D)

### Income tax expense

*Significant components of the income tax expense (recovery) recorded in the Consolidated Statement of Income for the years ended October 31, 2019 and 2020*

| | | 2020 | | 2019 |
|---|---|---|---|---|
| **Current income taxes** | | | | |
| Income tax expense for the year | $ | 31,563 | $ | 9,768 |
| Previous years income tax recovery adjustment | | (7,483) | | (485) |
| | | 24,080 | | 9,283 |
| **Deferred income taxes** | | | | |
| Origination and reversal of temporary differences | | (21,916) | | 13,584 |
| Previous years income tax expense adjustment | | 4,035 | | 588 |
| | | (17,881) | | 14,172 |
| | $ | 6,199 | $ | 23,455 |

*Significant components of the income tax expense (recovery) recorded in the Consolidated Statement of Comprehensive Income for the years ended October 31, 2019 and 2020*

| | | 2020 | | 2019 |
|---|---|---|---|---|
| **Items that may subsequently be reclassified to the Statement of Income** | | | | |
| Income tax expense related to change in unrealized net gains on debt securities at FVOCI | $ | 543 | $ | 846 |
| Income tax recovery related to reclassification of net gains on debt securities at FVOCI to net income | | (37) | | (137) |
| Income tax recovery related to net losses on hedges of investments in foreign operations | | (320) | | — |
| Income tax expense related to net change in value of derivatives designated as cash flow hedges | | 8,094 | | 12,034 |
| | | 8,280 | | 12,743 |
| **Items that may not subsequently be reclassified to the Statement of Income** | | | | |
| Income tax recovery related to remeasurement losses on employee benefit plans | | (2,005) | | (2,666) |
| Income tax recovery related to net losses on equity securities designated at FVOCI | | (2,169) | | (6,648) |
| | $ | 4,106 | $ | 3,429 |
| **Composition of income taxes** | | | | |
| Current income tax recovery | $ | (1,221) | $ | (6,895) |
| Deferred income tax expense | | 5,327 | | 10,324 |
| | $ | 4,106 | $ | 3,429 |

*Significant components of the income tax expense (recovery) recorded in the Consolidated Statement of Changes in Shareholders' Equity for the years ended October 31, 2019 and 2020*

| | | 2020 | | 2019 |
|---|---|---|---|---|
| **Income taxes on preferred share dividends** | | | | |
| Current income tax expense | $ | — | $ | 334 |
| **Income taxes on issuance of common and preferred shares** | | | | |
| Current Income tax recovery | | (1,538) | | — |
| Deferred income tax recovery | | (34) | | (16) |
| | | (1,572) | | (16) |
| **Income taxes on IFRS 16 and IFRS 9 adoption and other items** | | | | |
| Current income tax expense on right-of-use assets and lease liabilities (IFRS 16 adoption) | | 1,273 | | — |
| Deferred income tax recovery on right-of-use assets and lease liabilities (IFRS 16 adoption) | | (4,027) | | — |
| Deferred income tax recovery on allowances for loan losses (IFRS 9 adoption) | | — | | (2,736) |
| Current income tax expense (recovery) on other items | | 6,312 | | (629) |
| Deferred income tax expense (recovery) on other items | | (6,325) | | 669 |
| | | (2,767) | | (2,696) |
| | $ | (4,339) | $ | (2,378) |

## 20. INCOME TAXES (CONT'D)

### Reconciliation with the statutory rate

The reconciliation of income tax expense reported in the Consolidated Statement of Income to the dollar amount of income taxes using the statutory rates is as follows.

| | | 2020 | | 2019 |
|---|---|---|---|---|
| | Amount | Rate | Amount | Rate |
| Income taxes at statutory rates | $ 31,774 | 26.4 % | $ 52,161 | 26.6 % |
| Change resulting from: | | | | |
| Income related to foreign operations | (18,373) | (15.3) | (27,050) | (13.8) |
| Non-taxable dividends and non-taxable portion of capital gains | (4,876) | (4.0) | (2,495) | (1.3) |
| Other, net | (2,326) | (1.9) | 839 | 0.5 |
| Income taxes as reported in the Consolidated Statement of Income | $ 6,199 | 5.2 % | $ 23,455 | 12.0 % |

## 21. EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended October 31 is detailed as follows.

| | 2020 | 2019 |
|---|---|---|
| **Earnings per share – basic** | | |
| Net income | $ 114,085 | $ 172,710 |
| Preferred share dividends, including applicable taxes | 12,466 | 12,966 |
| Net income attributable to common shareholders | $ 101,619 | $ 159,744 |
| | | |
| Weighted-average number of outstanding common shares (in thousands) | 42,910 | 42,310 |
| Earnings per share – basic | $ 2.37 | $ 3.78 |

| | 2020 | 2019 |
|---|---|---|
| **Earnings per share – diluted** | | |
| Net income attributable to common shareholders | $ 101,619 | $ 159,744 |
| | | |
| Weighted-average number of outstanding common shares (in thousands) | 42,910 | 42,310 |
| Dilutive share purchase options (in thousands) | 19 | 46 |
| Diluted weighted-average number of outstanding common shares (in thousands) | 42,929 | 42,356 |
| Earnings per share – diluted | $ 2.37 | $ 3.77 |

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these Consolidated Financial Statements which would require the restatement of earnings per share.

## 22. RELATED PARTY TRANSACTIONS

Related parties of the Bank include:

- key management personnel and their close family members;
- entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key management personnel or their close family members;
- post-employment benefit plans for Bank employees.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, being members of the Executive Committee or Board of Directors.

### Loans and deposits with related parties

The following table shows the outstanding carrying amount of loans and deposits with related parties.

| | 2020 | 2019 |
|---|---|---|
| **Loans** | | |
| Key management personnel | $ 696 | $ 2,245 |
| **Deposits** | | |
| Key management personnel | $ 916 | $ 841 |
| Entities controlled by key management personnel | 92 | 92 |
| | $ 1,008 | $ 933 |

The Bank provides loans to key management personnel. Loans to key management personnel are granted under market conditions for similar risks and are initially measured at fair value. Loans to key management personnel consist mostly of term residential mortgage loans, as well as personal loans, at market rates less a discount based on the type and amount of the loan.

In the normal course of business, the Bank also provides usual banking services to key management personnel and their related entities, including bank accounts (deposits) under terms similar to those offered to arm's length parties.

### Compensation of key management personnel

The following table shows the total compensation of key management personnel.

| | 2020 | 2019 |
|---|---|---|
| Short-term employee benefits, including salaries | $ 4,960 | $ 4,702 |
| Post-employment benefits | 2,151 | 904 |
| Share-based compensation | 7,756 | 4,733 |
| | $ 14,867 | $ 10,339 |

## 23. FINANCIAL INSTRUMENTS – FAIR VALUE

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. Note 3 details the accounting treatment for each measurement category of financial instruments, as well as the estimates and judgment used in measuring the fair value of financial instruments.

### Classification of fair value measurement in the fair value hierarchy

Fair value measurements are categorized into levels within a fair value hierarchy based on the valuation inputs used. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 — Quoted prices in active markets for identical financial instruments.
- Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 — Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

### Determining fair value

Certain assets and liabilities, primarily financial instruments, are carried on the Consolidated Balance Sheet at their fair value. All other financial instruments are carried at amortized cost and the fair value is disclosed below. The following section discusses how the Bank measures fair value.

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. When available, the Bank generally uses quoted market prices to determine fair value and classifies such items in Level 1.

If quoted market prices are not available, fair value is based on internally developed valuation techniques that use, where possible, current market-based or independently sourced market inputs, such as interest rates, exchange rates and option volatilities. Instruments valued using internal valuation techniques are classified according to the lowest level input or value driver that is significant to the fair value measurement. Thus, an instrument may be classified in Level 3 even though some significant inputs may be observable.

Where available, the Bank may also make use of quoted prices for recent trading activity in positions with the same or similar characteristics to that being valued. The frequency and size of transactions and the amount of the bid-ask spread are among the factors considered in determining the liquidity of markets and the relevance of observed prices from those markets. If relevant and observable prices are available, those valuations would be classified in Level 2. If prices are not available, other valuation techniques are used and items are classified in Level 3. For these assets and liabilities, the inputs used in determining fair value may require significant management judgment. Due to the inherent uncertainty in these estimates, the values may differ significantly from those that would have been used if an active market had existed for the financial instruments. Moreover, the estimates of fair value for the same or similar financial instruments may differ among financial institutions. The calculation of fair value is based on market conditions as at each balance sheet date.

### Valuation methodologies

The following section describes the valuation methodologies used by the Bank to measure and disclose certain significant financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified. Where appropriate, the description includes details of the valuation models, the key inputs to those models as well as any significant assumptions.

*Securities purchased under reverse repurchase agreements and obligations related to securities sold under repurchase agreements*
Given that quoted prices are not available for such financial instruments, fair value is determined using a discounted cash flow technique. Cash flows are estimated based on the terms of the contract and discounted using appropriate market rates.

*Securities*
When available, the Bank uses quoted market prices to determine the fair value of securities; such instruments are classified in Level 1 of the fair value hierarchy; for example, exchange-traded equity securities. For bonds traded over the counter, the Bank generally determines fair value using internal valuation techniques or prices obtained from independent vendors. Where available, the Bank may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued. Securities priced using such methods are generally classified in Level 2. However, less liquid securities may be classified in Level 3 given that the Bank must then determine the parameters related to certain significant value drivers, including liquidity premiums and credit spreads.

*Loans*
Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of loans is estimated by discounting cash flows adjusted to reflect prepayments, if any, at the prevailing market interest rates for new loans with substantially similar terms. For certain variable rate loans subject to frequent rate revisions and loans with indeterminate maturities, the fair value is deemed to represent the carrying amount.

## 23. FINANCIAL INSTRUMENTS – FAIR VALUE (CONT'D)

*Other assets*
Other assets consist primarily of cheques and other items in transit, accrued interest receivable and accounts receivable. As quoted market prices in an active market are not available for these financial instruments the Bank determined that the carrying value approximates the fair value due to their short term nature.

*Derivatives*
The fair value of over-the-counter derivatives is calculated using prevailing market prices for instruments with similar characteristics and maturities, based on a discounted net value analysis or an appropriate pricing model that factors in the current and contractual prices of the underlying instruments, the time value of money, the yield curve, counterparty credit risk and volatility factors. These derivatives are classified in Level 2 or Level 3 depending on whether the significant inputs to those pricing models include observable or unobservable inputs. Also, certain exchange-traded derivatives, whose fair value is based on quoted market prices, are classified in Level 1 of the fair value hierarchy.

*Deposits*
Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of fixed rate deposits is estimated using discounted cash flows based on prevailing market interest rates for deposits with substantially similar terms. The fair value of deposits without stated maturities or variable rate deposits is deemed to represent their carrying amount.

*Obligations related to securities sold short*
When available, the Bank uses quoted market prices to determine the fair value of obligations related to securities sold short; such instruments are classified in Level 1. For bonds traded over the counter, the Bank generally determines fair value using internal valuation techniques or prices obtained from independent vendors. Where available, the Bank may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued. Securities priced using such methods are generally classified in Level 2.

*Other liabilities*
Other liabilities consist primarily of cheques and other items in transit, accrued interest payable and accounts payable. Quoted market prices in an active market are not available for these financial instruments and their fair value is deemed to represent their carrying amount due to their short term nature.

*Debt related to securitization activities*
Quoted market prices in an active market are not available for debt related to securitization activities. As a result, the fair value of these financial instruments is estimated using discounted cash flows based on prevailing market interest rates for similar issues or rates currently offered for debt securities with the same term to maturity.

*Subordinated debt*
Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of subordinated debt is estimated using discounted cash flows based on prevailing market interest rates for similar issues or rates currently offered for debt securities with the same term to maturity.

### Fair value hierarchy

*Financial assets and liabilities measured at fair value in the Consolidated Balance Sheet*
The following table shows the fair value hierarchy of financial instruments measured at fair value on a recurring basis using the valuation methods and assumptions as set out above.

| (in millions of Canadian dollars) | | | | 2020 |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| Securities | | | | |
| At FVOCI | $ 162 | $ 105 | $ 9 | $ 276 |
| At FVTPL | $ 145 | $ 2,268 | $ 2 | $ 2,415 |
| Derivatives | $ 1 | $ 294 | $ — | $ 295 |
| **Liabilities** | | | | |
| Obligations related to securities sold short | $ 1 | $ 3,020 | $ — | $ 3,021 |
| Derivatives | $ 4 | $ 98 | $ 25 | $ 127 |

## 23. FINANCIAL INSTRUMENTS – FAIR VALUE (CONT'D)

| (in millions of Canadian dollars) | | | | 2019 |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| Securities | | | | |
| At FVOCI | $ 185 | $ 123 | $ 5 | $ 313 |
| At FVTPL | $ 208 | $ 3,031 | $ 3 | $ 3,242 |
| Derivatives | $ — | $ 144 | $ — | $ 144 |
| **Liabilities** | | | | |
| Obligations related to securities sold short | $ 23 | $ 2,595 | $ — | $ 2,618 |
| Derivatives | $ 2 | $ 67 | $ 44 | $ 113 |

*Level transfers and reclassification*

There were no significant transfers between Level 1 and Level 2 of the hierarchy, or changes in fair value measurement methods during the year.

*Change in level 3 fair value category and sensitivity analysis*

The Bank classifies financial instruments in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically rely on a number of inputs that are observable either directly or indirectly. Transfers in and out of Level 3 can occur as a result of additional or new information regarding valuation inputs and changes in their observability. Changes in Level 3 financial instruments were not significant for the years ended October 31, 2020 and 2019.

As at October 31, 2020, the Bank considered other reasonably possible alternative assumptions for the valuation models to recalculate the fair value of the instruments and concluded that the resulting potential increase or decrease in total fair value classified in Level 3 was not significant.

*Financial assets and liabilities not measured at fair value on the Consolidated Balance Sheet*

The following table shows financial instruments which are not recorded at fair value on the Consolidated Balance Sheet and their classification in the fair value hierarchy. For these instruments, fair values are calculated for disclosure purposes only, and the valuation techniques are disclosed above.

| (in millions of Canadian dollars) | | | | | **2020** | | 2019 |
|---|---|---|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | **Level 1** | **Level 2** | **Level 3** | Carrying amount | Fair value |
| **Assets** | | | | | | | |
| Securities at amortized cost | **$ 3,110** | **$ 3,143** | **$ —** | **$ 3,143** | **$ —** | $ 2,745 | $ 2,747 |
| Loans | **$ 33,020** | **$ 33,079** | **$ —** | **$ —** | **$ 33,079** | $ 33,566 | $ 33,383 |
| **Liabilities** | | | | | | | |
| Deposits | **$ 23,920** | **$ 24,321** | **$ —** | **$ 24,321** | **$ —** | $ 25,653 | $ 25,849 |
| Debt related to securitization activities | **$ 10,184** | **$ 10,447** | **$ —** | **$ 10,447** | **$ —** | $ 8,913 | $ 8,933 |
| Subordinated debt | **$ 349** | **$ 360** | **$ —** | **$ 360** | **$ —** | $ 349 | $ 356 |

The Bank also determined that the carrying value approximates the fair value as at October 31, 2020 and 2019 for the following assets and liabilities as they are generally liquid floating rate financial instruments or are generally short term in nature: cash and non-interest-bearing deposits with banks, interest-bearing deposits with banks, securities purchased under reverse repurchase agreements, other assets, obligations related to securities sold under repurchase agreements, acceptances and other liabilities.

## 24. FINANCIAL INSTRUMENTS – OFFSETTING

The following table shows information about financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement and the effect or potential effect of set-off rights.

| | | | | Amounts not offset in the Consolidated Balance Sheet | | 2020 |
|---|---|---|---|---|---|---|
| | Gross recognized amounts | Gross amounts offset in the Consolidated Balance Sheet | Amounts presented in the Consolidated Balance Sheet | Impact of master netting agreements[1] | Financial collateral received or pledged | Net amounts |
| **Financial assets** | | | | | | |
| Securities purchased under reverse repurchase agreements | **$ 5,767,995** | **$ 2,627,767** | **$ 3,140,228** | **$ 364,360** | **$ 2,765,213** | **$ 10,655** |
| Derivatives | **295,122** | **—** | **295,122** | **91,586** | **154,047** | **49,489** |
| | **$ 6,063,117** | **$ 2,627,767** | **$ 3,435,350** | **$ 455,946** | **$ 2,919,260** | **$ 60,144** |
| **Financial liabilities** | | | | | | |
| Obligations related to securities sold under repurchase agreements | **$ 5,039,416** | **$ 2,627,767** | **$ 2,411,649** | **$ 364,360** | **$ 2,042,779** | **$ 4,510** |
| Derivatives | **127,412** | **—** | **127,412** | **91,586** | **5,744** | **30,082** |
| | **$ 5,166,828** | **$ 2,627,767** | **$ 2,539,061** | **$ 455,946** | **$ 2,048,523** | **$ 34,592** |

| | | | | Amounts not offset in the Consolidated Balance Sheet | | 2019 |
|---|---|---|---|---|---|---|
| | Gross recognized amounts | Gross amounts offset in the Consolidated Balance Sheet | Amounts presented in the Consolidated Balance Sheet | Impact of master netting agreements[1] | Financial collateral received or pledged | Net amounts |
| Financial assets | | | | | | |
| Securities purchased under reverse repurchase agreements | $ 5,167,670 | $ 2,629,385 | $ 2,538,285 | $ 666,192 | $ 1,871,720 | $ 373 |
| Derivatives | 143,816 | — | 143,816 | 51,273 | 47,746 | 44,797 |
| | $ 5,311,486 | $ 2,629,385 | $ 2,682,101 | $ 717,465 | $ 1,919,466 | $ 45,170 |
| Financial liabilities | | | | | | |
| Obligations related to securities sold under repurchase agreements | $ 5,188,268 | $ 2,629,385 | $ 2,558,883 | $ 666,192 | $ 1,892,542 | $ 149 |
| Derivatives | 112,737 | — | 112,737 | 51,273 | 13,885 | 47,579 |
| | $ 5,301,005 | $ 2,629,385 | $ 2,671,620 | $ 717,465 | $ 1,906,427 | $ 47,728 |

(1) Carrying amount of financial assets and financial liabilities that are subject to a master netting agreement or similar agreements but that do not meet offsetting criteria, as these agreements give a right of set-off that is enforceable only following a specified event of default or in other circumstances not expected to arise in the normal course of business.

## 25. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Bank is exposed to various types of risks owing to the nature of the business activities it pursues. To ensure that significant risks to which the Bank could be exposed are taken into consideration, a Risk Management Framework has been developed to provide for oversight of risk assessment and control. Risk management is conducted according to tolerance levels established by management committees and approved by the Board of Directors through its committees.

In order to manage the risks associated with financial instruments, including loan and deposit portfolios, securities and derivatives, the Bank has implemented policies prescribing how various risks are to be managed. In practice, management closely monitors various risk limits, as well as a number of other indicators. Oversight of operations is performed by groups independent of the business lines.

The risk management policies and procedures of the Bank are disclosed in the Risk Appetite and Risk Management Framework section of the Management's Discussion and Analysis (MD&A). The relevant MD&A sections are identified in the shaded text and tables and are an integral part of these Consolidated Financial Statements.

## 26. DERIVATIVES AND HEDGES

### 26.1 DERIVATIVES

Derivatives are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates or other equity prices or indices.

In the normal course of business, the Bank enters into various derivatives to manage its interest rate, foreign exchange and equity price risk related to the Bank's lending, funding, investment, and asset and liability management activities, as well as to meet its customer demands and to earn trading income, as described below.

#### Types of derivatives

The main types of derivatives used are as follows:

*Forwards and futures*
Forward contracts are non-standardized agreements that are transacted between counterparties in the over-the-counter (OTC) market, whereas futures are standardized contracts with respect to amounts and settlement dates, and are traded on organized exchanges. Examples of forwards and futures are described below.

- Interest rate futures are contractual obligations to buy or sell an interest-rate sensitive financial instrument on a predetermined future date at a specified price.
- Foreign exchange forwards are contractual obligations to exchange one currency for another at a specified price for settlement at a predetermined future date.
- Equity futures are contractual obligations to buy or sell at a fixed value (the specified price) of an equity index, a basket of stocks or a single stock at a predetermined future date.

*Swaps*
Swaps are OTC contracts in which two counterparties exchange a series of cash flows based on agreed upon rates applied to a notional amount. Examples of swap agreements are described below.

- Interest rate swaps are agreements where two counterparties exchange a series of payments based on different interest rates applied to a notional amount in a single currency. Certain interest rate swaps are transacted and settled through a clearing house which acts as a central counterparty.
- Cross-currency swaps are transactions in which counterparties exchange float-rate interest payments and principal payments in different currencies.
- Foreign exchange swaps are agreements to exchange payments in different currencies over predetermined periods of time.

*Options*
Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) a security, exchange rate, interest rate, or other financial instrument or commodity at a specified price, at or by a predetermined future date. The seller (writer) of an option can also settle the contract by paying the cash settlement value of the purchaser's right. The seller (writer) receives a premium from the purchaser for this right. The various option agreements that the Bank enters into include foreign currency options, equity options and index options.

*Total return swaps*
Total return swaps are contracts where one counterparty agrees to pay or receive from the other cash amounts based on changes in the value of a referenced asset or group of assets, including any returns such as interest earned on these assets, in exchange for amounts that are based on prevailing market funding rates.

#### Aggregate notional amounts

The following tables present notional amounts of derivatives by term to maturity. The notional amounts of derivatives represents the contract amount used as a reference point to calculate payments. Notional amounts are generally not exchanged by counterparties, and do not reflect the Bank's exposure at default.

## 26. DERIVATIVES AND HEDGES (CONT'D)

| (in millions of Canadian dollars) | | | | | | 2020 |
|---|---|---|---|---|---|---|
| | Term to maturity | | | | | |
| Notional amount | Within 1 year | 1 to 5 years | Over 5 years | Total | Contracts designated as hedges | Other contracts[1][2] |
| **Interest rate contracts** | | | | | | |
| Over-the-counter contracts | | | | | | |
| Swaps | $ 5,224 | $ 8,499 | $ 1,549 | $ 15,272 | $ 11,864 | $ 3,408 |
| Exchange-traded contracts | | | | | | |
| Futures | 24 | — | — | 24 | — | 24 |
| **Foreign exchange contracts** | | | | | | |
| Over-the-counter contracts | | | | | | |
| Cross-currency swaps | 1,066 | 932 | — | 1,998 | 1,688 | 310 |
| Foreign exchange swaps | 1,413 | 36 | — | 1,449 | — | 1,449 |
| Forwards | 851 | 45 | — | 896 | — | 896 |
| Options purchased | 466 | — | — | 466 | — | 466 |
| Options written | 466 | — | — | 466 | — | 466 |
| **Equity- and index-linked contracts** | | | | | | |
| Options purchased | 62 | 23 | — | 85 | — | 85 |
| Options written | 123 | 179 | — | 302 | — | 302 |
| Futures | 21 | — | — | 21 | — | 21 |
| Total return swaps | 10 | 23 | — | 33 | 5 | 28 |
| | $ 9,726 | $ 9,737 | $ 1,549 | $ 21,012 | $ 13,557 | $ 7,455 |

| (in millions of Canadian dollars) | | | | | | 2019 |
|---|---|---|---|---|---|---|
| | Term to maturity | | | | | |
| Notional amount | Within 1 year | 1 to 5 years | Over 5 years | Total | Contracts designated as hedges | Other contracts[1][2] |
| **Interest rate contracts** | | | | | | |
| Over-the-counter contracts | | | | | | |
| Swaps | $ 4,479 | $ 9,808 | $ 1,005 | $ 15,292 | $ 13,564 | $ 1,728 |
| Exchange-traded contracts | | | | | | |
| Futures | 4 | — | — | 4 | — | 4 |
| **Foreign exchange contracts** | | | | | | |
| Over-the-counter contracts | | | | | | |
| Foreign exchange swaps | 2,887 | 40 | — | 2,927 | 1,526 | 1,401 |
| Forwards | 984 | 50 | — | 1,034 | — | 1,034 |
| Options purchased | 392 | 1 | — | 393 | — | 393 |
| Options written | 392 | 1 | — | 393 | — | 393 |
| **Equity- and index-linked contracts** | | | | | | |
| Options purchased | 59 | 69 | — | 128 | — | 128 |
| Options written | 91 | 252 | — | 343 | — | 343 |
| Futures | 4 | — | — | 4 | — | 4 |
| Total return swaps | 15 | 36 | — | 51 | 6 | 45 |
| | $ 9,307 | $ 10,257 | $ 1,005 | $ 20,569 | $ 15,096 | $ 5,473 |

(1) Include notional amounts of $1.6 billion related to basis swaps as at October 31, 2020 ($0.4 billion as at October 31, 2019).

(2) Include derivatives used in trading operations to meet customer demands and to earn trading income, as well as derivatives used to manage the Bank's risk exposures that are not designated in hedge relationships.

## 26. DERIVATIVES AND HEDGES (CONT'D)

### Fair value of derivatives

| (in thousands of Canadian dollars) | | 2020 | | 2019 |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | Assets | Liabilities |
| **CONTRACTS DESIGNATED AS HEDGES** | | | | |
| **Fair value hedges** | | | | |
| Interest rate contracts | | | | |
| Swaps | **$ 139,473** | **$ 27,684** | $ 50,913 | $ 27,869 |
| **Cash flow hedges** | | | | |
| Interest rate contracts | | | | |
| Swaps | **83,164** | **21,732** | 41,899 | 14,788 |
| Equity- and index-linked contracts | | | | |
| Total return swaps | **—** | **2,127** | 426 | 244 |
| **Net investment hedges** | | | | |
| Foreign exchange contracts | | | | |
| Cross-currency swaps | **18,920** | **8,870** | — | — |
| Foreign exchange swaps | **—** | **—** | 10,901 | 967 |
| OTHER CONTRACTS[1] | | | | |
| Interest rate contracts | | | | |
| Swaps | **28,690** | **28,157** | 19,348 | 16,758 |
| Foreign exchange contracts | | | | |
| Foreign exchange swaps | **11,083** | **6,636** | 6,827 | 4,368 |
| Forwards | **2,725** | **1,837** | 5,444 | 1,739 |
| Options purchased | **3,061** | **—** | 338 | — |
| Options written | **—** | **2,857** | — | 341 |
| Equity- and index-linked contracts | | | | |
| Options purchased | **8,006** | **—** | 7,581 | — |
| Options written | **—** | **27,524** | — | 45,729 |
| Total return swaps | **—** | **(12)** | 139 | (66) |
| Total | **$ 295,122** | **$ 127,412** | $ 143,816 | $ 112,737 |

(1) Include derivatives used in trading operations to meet customer demands and to earn trading income as well as derivatives used to manage the Bank's risk exposures that do not qualify for hedge accounting.

### Credit risk exposure of derivatives

| (in millions of Canadian dollars) | | | 2020 | | | 2019 |
|---|---|---|---|---|---|---|
| | **Replacement cost[1]** | **Credit equivalent amount[2]** | **Risk-weighted amount[3]** | Replacement cost[1] | Credit equivalent amount[2] | Risk-weighted amount[3] |
| Interest rate contracts | **$ 261** | **$ 625** | **$ 144** | $ 112 | $ 304 | $ 71 |
| Foreign exchange contracts | **36** | **201** | **65** | 24 | 89 | 29 |
| Equity-and index-linked contracts | **6** | **33** | **7** | 8 | 35 | 7 |
| | **303** | **859** | **216** | 144 | 428 | 107 |
| Impact of master netting agreements | **(265)** | **(692)** | **(153)** | (93) | (226) | (38) |
| | **$ 38** | **$ 167** | **$ 63** | $ 51 | $ 202 | $ 69 |

(1) Represents what it would cost to replace transactions at prevailing market conditions in the event of a default. This is the favourable fair market value of all outstanding contracts, excluding options written since they do not constitute a credit risk, including securitization swaps not recognized on the balance sheet.
(2) Represents the sum of (i) the total replacement cost of all outstanding contracts and (ii) an amount representing the assessed potential future credit risk, using guidelines issued by OSFI.
(3) Represents the credit risk equivalent amount weighted based on the creditworthiness of the counterparty, as prescribed by OSFI.

## 26. DERIVATIVES AND HEDGES (CONT'D)

### 26.2 HEDGE ACCOUNTING

The Bank applies hedge accounting as part of managing its interest rate, foreign exchange and equity price risk related to the Bank's lending, funding, investment, and asset and liability management activities.

#### Interest rate risk

The majority of derivative contracts used to hedge certain exposures to benchmark interest rate risk are interest rate swaps. For fair value hedges, the Bank converts fixed interest rate exposures from the hedged financial instruments to floating interest rate exposures. For cash flow hedges, the Bank converts certain exposures to cash flow variability from its variable rate instruments to fixed interest rate exposures.

#### Equity price risk

Cash-settled total return swaps are used in designated cash flow hedge relationships to hedge changes in the Bank's share price in respect of certain cash-settled share-based compensation awards. Refer to Note 18 for further details.

#### Foreign exchange risk

Cross-currency swaps and foreign exchange swaps are used in designated net investment hedge relationships to hedge changes in the value of the net investment in a foreign subsidiary from foreign exchange currency fluctuations.

#### Assessing hedge effectiveness

For the hedge relationships above, hedge effectiveness is assessed at the inception of the hedge relationship and on an ongoing basis, primarily using regression analysis.

For fair value and cash flow hedges, the main source of potential hedge ineffectiveness is a circumstance where the critical terms of the hedging instrument and the hedged item are not closely aligned.

For net investment hedges, changes in fair value of the derivative attributable to exchange rate fluctuations are compared with changes in the net investment in a foreign operation attributable to exchange rate fluctuations. Inasmuch as the notional amount of the hedging instruments and the hedged net investments are aligned, no ineffectiveness is expected.

#### Derivative instruments designated in hedging relationships

| | | | | | | 2020 |
|---|---|---|---|---|---|---|
| **Fair value hedges** | Notional amounts | | | | Carrying amounts | |
| (in thousands of Canadian dollars) | Within 1 year | 1 to 5 years | Over 5 years | Total | Assets | Liabilities |
| **Interest rate risk** | | | | | | |
| Interest rate contracts | | | | | | |
| Hedge of fixed rate assets | $ 2,000 | $ 977,500 | $ 112,000 | $1,091,500 | $ 272 | $ 26,050 |
| Hedge of fixed rate liabilities | $2,624,500 | $2,961,000 | $ 638,000 | $6,223,500 | $ 139,201 | $ 1,634 |
| Weighted-average fixed interest rate | | | | | | |
| Hedge of fixed rate assets | 1.7 % | 1.6 % | 0.9 % | 1.5 % | | |
| Hedge of fixed rate liabilities | 1.5 % | 1.7 % | 1.6 % | 1.6 % | | |

## 26. DERIVATIVES AND HEDGES (CONT'D)

| | | | | | | 2020 |
|---|---|---|---|---|---|---|
| **Cash flow hedges** | **Notional amounts** | | | | **Carrying amounts** | |
| (in thousands of Canadian dollars) | **Within 1 year** | **1 to 5 years** | **Over 5 years** | **Total** | **Assets** | **Liabilities** |
| **Interest rate risk** | | | | | | |
| Interest rate contracts | | | | | | |
| Hedge of variable rate assets | **$1,320,000** | **$1,783,000** | **$ 70,000** | **$3,173,000** | **$ 81,401** | **$ 199** |
| Hedge of variable rate liabilities | **$ 135,000** | **$ 798,000** | **$ 448,000** | **$1,381,000** | **$ 1,763** | **$ 21,533** |
| Weighted-average variable interest rate | | | | | | |
| Hedge of variable rate assets | **0.5 %** | **0.5 %** | **0.5 %** | **0.5 %** | | |
| Hedge of variable rate liabilities | **0.5 %** | **0.4 %** | **0.5 %** | **0.4 %** | | |
| **Equity price risk** | | | | | | |
| Total return swaps | **$ 1,127** | **$ 3,467** | **$ —** | **$ 4,594** | **$ —** | **$ 2,127** |
| Weighted-average price | **$ 26.32** | **$ 29.36** | **$ —** | **$ 28.61** | | |

| | | | | | | 2020 |
|---|---|---|---|---|---|---|
| **Net investment hedges** | **Notional amounts** | | | | **Carrying amounts** | |
| (in thousands of Canadian dollars) | **Within 1 year** | **1 to 5 years** | **Over 5 years** | **Total** | **Assets** | **Liabilities** |
| **Foreign exchange risk** | | | | | | |
| Cross-currency swaps | **$ 744,643** | **$ 943,740** | **$ —** | **$ 1,688,383** | **$ 18,920** | **$ 8,870** |
| Average CAD-USD exchange rate | **$ 1.3265** | **$ 1.3482** | **$ —** | **$ 1.3385** | | |

| | | | | | | 2019 |
|---|---|---|---|---|---|---|
| **Fair value hedges** | Notional amounts | | | | Carrying amounts | |
| (in thousands of Canadian dollars) | Within 1 year | 1 to 5 years | Over 5 years | Total | Assets | Liabilities |
| **Interest rate risk** | | | | | | |
| Interest rate contracts | | | | | | |
| Hedge of fixed rate assets | $ 100,000 | $ 356,880 | $ 2,000 | $ 458,880 | $ 269 | $ 914 |
| Hedge of fixed rate liabilities | $3,020,800 | $4,819,500 | $ 529,000 | $8,369,300 | $ 50,644 | $ 26,955 |
| Weighted-average fixed interest rate | | | | | | |
| Hedge of fixed rate assets | 2.2 % | 1.8 % | 2.9 % | 1.9 % | | |
| Hedge of fixed rate liabilities | 1.8 % | 1.7 % | 2.0 % | 1.8 % | | |

| | | | | | | 2019 |
|---|---|---|---|---|---|---|
| **Cash flow hedges** | | | | Notional amounts | Carrying amounts | |
| (in thousands of Canadian dollars) | Within 1 year | 1 to 5 years | Over 5 years | Total | Assets | Liabilities |
| **Interest rate risk** | | | | | | |
| Interest rate contracts | | | | | | |
| Hedge of variable rate assets | $1,154,200 | $2,807,000 | $ 15,000 | $3,976,200 | $ 37,335 | $ 6,746 |
| Hedge of variable rate liabilities | $ 175,000 | $ 358,600 | $ 226,000 | $ 759,600 | $ 4,564 | $ 8,042 |
| Weighted-average variable interest rate | | | | | | |
| Hedge of variable rate assets | 2.0 % | 2.0 % | 2.0 % | 2.0 % | | |
| Hedge of variable rate liabilities | 2.0 % | 2.0 % | 2.0 % | 2.0 % | | |
| **Equity price risk** | | | | | | |
| Total return swaps | $ 1,774 | $ 4,665 | $ — | $ 6,439 | $ 426 | $ 244 |
| Weighted-average price | $ 44.75 | $ 45.66 | $ — | $ 45.41 | | |

## 26. DERIVATIVES AND HEDGES (CONT'D)

| | | | | | | | | 2019 |
|---|---|---|---|---|---|---|---|---|
| **Net investment hedges** | | | | Notional amounts | | Carrying amounts | |
| (in thousands of Canadian dollars) | Within 1 year | 1 to 5 years | Over 5 years | Total | Assets | Liabilities |
| **Foreign exchange risk** | | | | | | |
| Foreign exchange swaps | $ 1,525,505 | $ — | $ — | $ 1,525,505 | $ 10,901 | $ 967 |
| Average CAD-USD exchange rate | $ 1.3258 | $ — | $ — | $ 1.3258 | | |

### Fair value hedges

The following tables show amounts related to hedged items as well as the results of the fair value hedges.

| | | | | | | **2020** |
|---|---|---|---|---|---|---|
| (in thousands of Canadian dollars) | **Carrying value of hedged items** | **Cumulative hedge adjustments from active hedges** | **Cumulative adjustments from discontinued hedges** | **Gains (losses) on the hedged items for ineffectiveness measurement** | **Gains (losses) on the hedging instruments for ineffectiveness measurement** | **Hedge ineffectiveness[1]** |
| **Interest rate risk** | | | | | | |
| Securities at amortized cost | **$ 1,109,566** | **$ 22,066** | **$ —** | **$ 21,491** | **$ (21,385)** | **$ 106** |
| Securities at FVOCI | **4,000** | **310** | **(14)** | **123** | **(128)** | **(5)** |
| Loans | **—** | **—** | **—** | **(3)** | **4** | **1** |
| Deposits | **3,132,832** | **17,832** | **28,597** | **(34,402)** | **34,894** | **492** |
| Debt related to securitization activities | **3,161,697** | **53,197** | **33,051** | **(84,183)** | **83,850** | **(333)** |
| | | | | **$ (96,974)** | **$ 97,235** | **$ 261** |

| | | | | | | 2019 |
|---|---|---|---|---|---|---|
| (in thousands of Canadian dollars) | Carrying value of hedged items | Cumulative hedge adjustments from active hedges | Cumulative adjustments from discontinued hedges | Gains (losses) on the hedged items for ineffectiveness measurement | Gains (losses) on the hedging instruments for ineffectiveness measurement | Hedge ineffectiveness[1] |
| **Interest rate risk** | | | | | | |
| Securities | $ 450,575 | $ 575 | $ — | $ 578 | $ (566) | $ 12 |
| Securities at FVOCI | 4,000 | 187 | (20) | 230 | (235) | (5) |
| Loans | 4,843 | (37) | — | 133 | (131) | 2 |
| Deposits | 5,048,101 | 18,101 | 426 | (60,630) | 60,625 | (5) |
| Debt related to securitization activities | 3,346,409 | 7,109 | (378) | (117,111) | 117,895 | 784 |
| | | | | $ (176,800) | $ 177,588 | $ 788 |

(1) Included on the Income from financial instruments line-item.

## 26. DERIVATIVES AND HEDGES (CONT'D)

### Cash flow hedges

The following tables show the amounts related to hedged items as well as the results of the cash flow hedges.

**2020**

| (in thousands of Canadian dollars) | Accumulated other comprehensive income from active hedges | Accumulated other comprehensive income from discontinued hedges | Gains (losses) on hedged items for ineffectiveness measurement | Gains (losses) on hedging instruments for ineffectiveness measurement | Hedge ineffectiveness[1] | Unrealized gains (losses) included in Other comprehensive income as the effective portion of the hedging instrument | Losses (gains) reclassified to net interest income |
|---|---|---|---|---|---|---|---|
| **Interest rate risk** | | | | | | | |
| Loans | $ 70,056 | $ 25,803 | $ (74,043) | $ 73,909 | $ (134) | $ 40,049 | $ 28,402 |
| Deposits | (11,972) | (10,708) | 27,292 | (27,495) | $ (203) | (10,083) | (8,720) |
| Debt related to securitization activities | (1,891) | (9,734) | 4,857 | (4,873) | (16) | (4,857) | (11,435) |
| | 56,193 | 5,361 | (41,894) | 41,541 | (353) | 25,109 | 8,247 |
| **Equity price risk** | | | | | | | |
| Other liabilities | (2,178) | 78 | 4,205 | (4,205) | — | (2,668) | (50) |
| | $ 54,015 | $ 5,439 | $ (37,689) | $ 37,336 | $ (353) | $ 22,441 | $ 8,197 |

2019

| (in thousands of Canadian dollars) | Accumulated other comprehensive income from active hedges | Accumulated other comprehensive income from discontinued hedges | Gains (losses) on hedged items for ineffectiveness measurement | Gains (losses) on hedging instruments for ineffectiveness measurement | Hedge ineffectiveness[1] | Unrealized gains (losses) included in Other comprehensive income as the effective portion of the hedging instrument | Losses (gains) reclassified to net interest income |
|---|---|---|---|---|---|---|---|
| **Interest rate risk** | | | | | | | |
| Loans | $ 30,007 | $ (2,599) | $ (80,492) | $ 80,963 | $ 471 | $ 80,197 | $ 6,342 |
| Deposits | (1,889) | (2,278) | 29,805 | (30,217) | (412) | (25,683) | (10,333) |
| Debt related to securitization activities | 2,965 | 1,991 | 8,784 | (8,806) | (22) | (8,785) | 1,692 |
| | 31,083 | (2,886) | (41,903) | 41,940 | 37 | 45,729 | (2,299) |
| **Equity price risk** | | | | | | | |
| Other liabilities | 490 | 28 | (1,424) | 1,424 | — | 1,578 | 319 |
| | $ 31,573 | $ (2,858) | $ (43,327) | $ 43,364 | $ 37 | $ 47,307 | $ (1,980) |

(1) Included on the Income from financial instruments line-item.

## 26. DERIVATIVES AND HEDGES (CONT'D)

### Net investment hedges

The following tables show the amounts related to hedged items as well as the results of the net investment hedges.

| | | | | | | 2020 |
|---|---|---|---|---|---|---|
| (in thousands of Canadian dollars) | **Accumulated other comprehensive income from active hedges** | **Accumulated other comprehensive income from discontinued hedges** | **Gains (losses) on hedged items for ineffectiveness measurement** | **Gains (losses) on hedging instruments for ineffectiveness measurement** | **Hedge ineffectiveness[1]** | **Losses (gains) reclassified to income** |
| **Net investments in foreign operations** | | | | | | |
| USD | **$ 9,869** | **$ (23,274)** | **$ (5,005)** | **$ 5,005** | **$ —** | **$ —** |

| | | | | | | 2019 |
|---|---|---|---|---|---|---|
| (in thousands of Canadian dollars) | Accumulated other comprehensive income from active hedges | Accumulated other comprehensive income from discontinued hedges | Gains (losses) on hedged items for ineffectiveness measurement | Gains (losses) on hedging instruments for ineffectiveness measurement | Hedge ineffectiveness[1] | Losses (gains) reclassified to income |
| **Net investments in foreign operations** | | | | | | |
| USD | $ 2,196 | $ (17,544) | $ 5,158 | $ (5,158) | $ — | $ — |

(1) Included on the Income from financial instruments line-item.

### Reconciliation of equity components

The following table presents a reconciliation by risk category of AOCI attributable to hedge accounting.

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Cash flow hedge reserve** | **Translation of foreign operations reserve** | Cash flow hedge reserve | Translation of foreign operations reserve |
| Balance at beginning of period | **$ 21,049** | **$ (430)** | $ (12,244) | $ 4,283 |
| **Hedges of net investments in foreign operations** | | | | |
| Effective portion of changes in fair value | **n/a** | **5,005** | n/a | (5,158) |
| Foreign currency translation gains on investments in foreign operations | **n/a** | **1,943** | n/a | 445 |
| **Cash flow hedges** | | | | |
| Effective portion of changes in fair value | | | | |
| Interest rate risk | **25,109** | **n/a** | 45,729 | n/a |
| Equity price risk | **(2,668)** | **n/a** | 1,578 | n/a |
| Net amount reclassified to profit or loss | | | | |
| Interest rate risk | **8,247** | **n/a** | (2,299) | n/a |
| Equity price risk | **(50)** | **n/a** | 319 | n/a |
| **Income taxes** | **(8,094)** | **320** | (12,034) | — |
| Balance at end of period | **$ 43,593** | **$ 6,838** | $ 21,049 | $ (430) |

## 27. INCOME RELATED TO FINANCIAL INSTRUMENTS

### Net interest income

| | | 2020 | | 2019 |
|---|---|---|---|---|
| **Interest and similar income** | | | | |
| Interest income calculated using the effective interest method | | | | |
| Financial instruments measured at amortized cost | $ | 1,331,497 | $ | 1,503,943 |
| Financial instruments measured at FVOCI | | 2,575 | | 3,490 |
| Interest and similar income for financial instruments not measured at amortized cost[1] | | 88,181 | | 48,949 |
| | | 1,422,253 | | 1,556,382 |
| **Interest and similar expense** | | | | |
| Interest expense calculated using the effective interest method | | | | |
| Financial instruments measured at amortized cost | | 730,513 | | 820,073 |
| Interest expense and derivative expense for financial instruments that are measured at FVTPL | | 9,316 | | 49,898 |
| | | 739,829 | | 869,971 |
| Net interest income | $ | 682,424 | $ | 686,411 |

(1) Includes interest income, derivative income and dividend income for financial instruments that are measured at FVTPL and equity securities designated at FVOCI. Dividend income for the year ended October 31, 2020 is $14.9 million ($15.7 million for the year ended October 31, 2019).

### Other income from financial instruments

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Trading revenues | $ | 32,996 | $ | 5,999 |
| Income from non-trading financial instruments at FVTPL and foreign exchange | | 592 | | 5,946 |
| Net gains on FVOCI debt securities | | 140 | | 515 |
| | $ | 33,728 | $ | 12,460 |

## 28. INSURANCE INCOME

Insurance income reported in other income in the Consolidated Statement of Income is detailed as follows.

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Insurance revenues | $ | 19,402 | $ | 22,781 |
| Claims and expenses | | (8,254) | | (8,840) |
| Insurance income, net | $ | 11,148 | $ | 13,941 |

## 29. OTHER INCOME

### Rental income

The Bank has entered as a lessor into operating leases with clients on an equipment portfolio (see Note 12). These leases have terms of between 1 and 7 years. Rental income for these leases of $3.5 million ($4.7 million in 2019) is reported in other income in the Consolidated Statement of Income. The following table shows minimum lease payments receivable from lessees under these non-cancellable operating leases.

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Receivable within one year | $ | 2,187 | $ | 3,244 |
| Receivable within 1 to 5 years | | 1,187 | | 2,903 |
| Receivable after 5 years | | — | | 41 |
| | $ | 3,374 | $ | 6,188 |

## 30. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

### Credit-related commitments

The Bank uses certain off-balance sheet credit instruments as a means of meeting the financial needs of its customers. Undrawn amounts under approved credit facilities represent a commitment to make credit available in the form of loans or other credit instruments for specific amounts and maturities, subject to specific conditions.

Documentary letters of credit are documents issued by the Bank on behalf of customers, authorizing a third party to draw drafts to a stipulated amount under specific conditions. These letters are guaranteed by the underlying shipments of goods.

The amounts of credit-related commitments represent the maximum amount of additional credit that the Bank could be obliged to extend. These amounts are not necessarily indicative of credit risk as many of these commitments are contracted for a limited period of usually less than one year and will expire or terminate without being drawn upon.

### Guarantees

*Standby letters of credit and performance guarantees*
In the normal course of its operations, the Bank offers its customers the possibility of obtaining standby letters of credit and performance guarantees. These represent irrevocable assurances that the Bank will make payments in the event that clients cannot meet their obligations to third parties. The term of these guarantees varies according to the contracts and normally does not exceed one year. The Bank's policy for requiring collateral security with respect to these instruments is similar to its policy for loans. The maximum potential amount of future payments under these guarantees totalled $226.5 million as at October 31, 2020 ($161.2 million as at October 31, 2019).

*Other indemnification agreements*
In the normal course of its operations, the Bank provides indemnification agreements to counterparties in certain transactions such as purchase contracts, service agreements and sales of assets. These indemnification agreements require the Bank to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The Bank also indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their being, or having been, directors or officers at the request of the Bank. The terms of these indemnification agreements vary based on the contract. The nature of the indemnification agreements prevents the Bank from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, the Bank has not made any significant payments under such indemnification agreements. No amount has been accrued with respect to these indemnification agreements.

The Bank also enters into other derivative contracts under which it may be required to make payments to counterparties. These derivatives are accounted for in accordance with the policy for derivative instruments (refer to Note 26 for further detail).

### Lease liabilities

The Bank has entered into commercial leases mainly related to real estate right-of-use assets. The following table presents lease liabilities by contractual maturity excluding operating costs and variable lease payments. The Bank has extension options for its real estate leases. For the measurement of lease liabilities, such extensions have been included if management has concluded that it is reasonably certain that they will be exercised.

| | | 2020 |
|---|---|---|
| **Lease liabilities – undiscounted value** | | |
| Due within one year | $ | **18,305** |
| Due within 1 to 5 years | | **72,683** |
| Due after 5 years | | **107,883** |
| | | **198,871** |
| Discounting | | **(38,209)** |
| Lease liabilities (Note 14) | $ | **160,662** |

Following the adoption of IFRS 16 on November 1, 2019, interest expense related to lease liabilities was $4,9 million for the year ended October 31, 2020.

Refer to Note 9 for details on the related right-of-use assets.

## 30. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES (CONT'D)

### Other non-cancellable commitments

Minimum future payments for other non-cancellable commitments (including real estate variable lease payments and short-term lease contracts) by maturity are as follows:

| | | | | | | 2020 |
|---|---|---|---|---|---|---|
| | | **Leases** | | **Information technology service contracts** | | **Other** |
| Due within one year | $ | 23,173 | $ | 44,224 | $ | 9,758 |
| Due within 1 to 5 years | | 60,316 | | 42,140 | | — |
| Due after 5 years | | 70,936 | | 20,685 | | — |
| | | 154,425 | | 107,049 | | 9,758 |
| Less: Future minimum sublease payments to be received | | (1,476) | | — | | — |
| Total | $ | 152,949 | $ | 107,049 | $ | 9,758 |

Following the adoption of IFRS 16 on November 1, 2019, payments under these real estate variable lease and short-term lease contracts commitments recognized as an expense amounted to $26.8 million for the year ended October 31, 2020. Under the previous guidance, payments under leases commitments recognized as an expense amounted to $47.8 million for the year ended October 31, 2019.

Payments under these information technology service contracts and other commitments recognized as an expense amounted to $118.9 million for the year ended October 31, 2020 ($113.3 million for the year ended October 31, 2019).

### Financial assets pledged as collateral

In the normal course of its operations, the Bank pledges financial assets presented in the Consolidated Balance Sheet. This collateral security is pledged under the usual terms that provide, among other things, that the Bank bear the risks and rewards related to the collateral security and the pledged assets be returned to the Bank when the terms and conditions requiring them to be pledged as security cease to apply.

Financial assets pledged as collateral under securitization operations are detailed in Note 8. The following table details the financial assets pledged as collateral under other arrangements.

| | | **2020** | | 2019 |
|---|---|---|---|---|
| **Pledged assets:** | | | | |
| To participate in clearing and payment systems[1] | $ | **517,690** | $ | 1,366,214 |
| For obligations related to securities sold under repurchase agreements and for securities borrowed | | **5,909,820** | | 6,148,416 |
| For obligations related to derivatives in a liability position | | **57,368** | | 66,136 |
| | $ | **6,484,878** | $ | 7,580,766 |
| **Pledged assets are detailed as follows:** | | | | |
| Securities | $ | **5,965,811** | $ | 6,781,320 |
| Residential mortgage loans (NHA MBS)[1] | | **396,067** | | 530,217 |
| Other loans | | **123,000** | | 269,229 |
| | $ | **6,484,878** | $ | 7,580,766 |

(1) Of which $390.0 million was pledged in excess of minimum requirements as at October 31, 2020, including $345.5 million of NHA MBS ($1,120.0 million as at October 31, 2019, including $530.2 million of NHA MBS).

### Contingent liabilities and legal provisions

In the ordinary course of business, the Bank and its subsidiaries are involved in various legal and regulatory proceedings. Such proceedings involve a variety of issues and the timing of their resolution is varied and uncertain.

Legal provisions are recognized when it becomes probable that the Bank will incur an expense related to legal proceedings and the amount can be reliably estimated. Legal provisions are recorded at the best estimate of the amounts required to settle the obligation as at the reporting date, taking into account the risks and uncertainties associated with the obligation. Management and external experts are involved in estimating any legal provision, as necessary. The actual costs of settling some obligations may be substantially higher or lower than the amounts of the provisions. In some cases, it is not possible to either determine whether an obligation is probable or to reliably estimate the amount of loss, in which case no accrual can be made. This is an area of significant judgment and uncertainty, given the varying stages of the proceedings, the fact that the Bank's liability, if any, has yet to be determined and the fact that the underlying matters will change from time to time. As such the extent of our financial and other exposure to such legal proceedings, after taking into account current accruals, could be material to our results of operations in any particular period.

## 30. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES (CONT'D)

The following is a description of the Bank's significant legal proceedings, which we intend to vigorously defend:

**MEDAC v. Laurentian Bank of Canada and al.**

In June 2020, a plaintiff filed an application seeking leave to institute a class action in the Superior Court of Québec against the Bank, as well as a current executive and a former executive. The application alleges that the Bank and executives violated the Quebec Securities Act and Civil Code through alleged misrepresentations and non-disclosures regarding the Bank's and a subsidiary's mortgage loan securitization activities, and related mortgage underwriting procedures. The defendants to the proposed class action also include the Bank's external auditor, lead underwriters and all other securities dealers who underwrote securities offerings of the Bank in May 2017 and January 2018, including Laurentian Bank Securities, a subsidiary of the Bank. The plaintiff instituted this action on behalf of the Bank's shareholders who acquired shares between May 18, 2017 and September 3, 2018 and still held all or part of such shares between December 5, 2017 and September 4, 2018. A date for the court hearing of the application to authorize the proposed class action has not yet been scheduled. Based on the facts currently known, it is not possible at this time for us to predict the ultimate outcome of this proceeding or the timing of its resolution.

**Consumer class actions**

A number of financial institutions, including the Bank, have been named in various class actions brought by customers or clients alleging that certain of our practices or actions were improper in respect of fees, charges or interest rates relating to credit cards, bank accounts and other products. The cases are in various stages of maturity and the timing of their resolution is varied and uncertain. Based on the facts currently known, it is not possible at this time for us to predict the ultimate outcome of these proceedings or the timing of their resolution.

## 31. RESTRUCTURING CHARGES

The following table details the Restructuring charges line item.

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Severance charges | $ | 12,321 | $ | 10,674 |
| Charges related to lease contracts | | 4,762 | | 4,704 |
| Other restructuring charges | | 1,206 | | 2,110 |
| Curtailment gain on pension plans and other post-employment benefits obligations | | — | | (4,809) |
| Total | $ | 18,289 | $ | 12,679 |

In 2019, we reiterated our intention to optimize our Quebec Retail Network and announced the streamlining of certain back-office and corporate functions. As part of this plan, in May 2020, we decided to merge fourteen additional retail branches, over the next two quarters, and to reduce headcount by about 100 people through attrition, retirement and targeted job reductions to realign our workforce with our operational needs. As part of these initiatives, restructuring charges of $18.3 million were incurred in 2020 ($12.7 million in 2019) and mainly included severance charges and charges related to lease contracts.

The following table shows the change in the provision for restructuring charges, included in the Other liabilities line item in the Consolidated Balance Sheet.

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Balance at beginning of the year | $ | 9,322 | $ | 4,754 |
| Restructuring charges incurred during the year[1] | | 18,289 | | 17,488 |
| Payments made during the year | | (22,570) | | (12,920) |
| Balance at end of the year | $ | 5,041 | $ | 9,322 |

(1) In 2019, excluding a $4.8 million curtailment gain on pension plans and other post-employment benefits obligations presented on the Restructuring charges line-item in the Consolidated Statement of Income.

As at October 31, 2020 and 2019, the remaining provision mainly relates to lease contracts and severances.

## 32. SEGMENTED INFORMATION

### Operating segments

The Bank determines its operating segments based on how the Chief Operating Decision maker (the Executive Committee) manages the different services and products provided to clients. Prior to October 31, 2019, the Bank had four operating segments: Retail Services, Business Services, B2B Bank and Capital Markets. As the strategic plan aimed at reorganizing the Bank is being delivered, the operating segments have evolved and are defined, as of October 31, 2019 based on the new client segmentation as detailed below.

- The Personal operating segment, which regroups the previous Retail services and B2B Bank CGUs, caters to the financial needs of retail clients. Clients can access the Bank's offering of financial advice, products and services through a network of branches in Quebec referred to as Financial Clinics; an Advisors and Brokers channel targeting independent financial intermediaries across Canada; and a Digital Direct-to-customer platform available to all Canadians.
- The Business Services operating segment caters to the financial needs of business clients across Canada and in the United States and provides commercial banking; real estate financing; and equipment and inventory financing.
- The Capital Markets operating segment provides a range of services, including research, market analysis and advisory services; corporate underwriting for debt and equity; and administrative services.

The Bank's other activities, including the Bank's corporate functions and Corporate Treasury, are grouped into the Other sector.

### Reportable segments

The Bank has evaluated quantitative and qualitative aggregation criteria to determine that it has one reportable segment. The Bank aggregates operating segments with similar economic characteristics that meet the aggregation criteria. Factors considered in applying aggregation criteria mainly include: the similarity of products and services offered, the nature of operations and processes, as well as the similarity in the regulatory environments in which the segments operate. For the Capital Markets operating segment, which does not have similar economic characteristics, the Bank applies quantitative thresholds, as well as judgment for aggregation.

### Geographic segments

The Bank operates primarily within two geographic areas: Canada and the United States. The following tables summarizes the Bank's revenues and average earning assets by geographic segment.

| | | | | **2020** |
|---|---|---|---|---|
| | | **Canada** | **United States** | **Total** |
| Total revenue | | **$ 853,938** | **$ 117,071** | **$ 971,009** |
| Average earning assets | | **$ 34,603,473** | **$ 2,415,407** | **$ 37,018,880** |

| | | | | 2019 |
|---|---|---|---|---|
| | | Canada | United States | Total |
| Total revenue | | $ 857,899 | $ 110,611 | $ 968,510 |
| Average earning assets | | $ 35,812,076 | $ 2,024,635 | $ 37,836,711 |

## Condensed Consolidated Balance Sheet

| As at October 31 (in thousands of Canadian dollars, unaudited) | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Cash and non-interest-bearing deposits with banks** | **$ 69,661** | $ 90,658 | $ 116,490 | $ 111,978 | $ 123,716 |
| **Interest bearing deposits with banks** | **603,181** | 322,897 | 374,237 | 215,384 | 63,383 |
| **Securities** | **5,799,216** | 6,299,936 | 6,061,144 | 5,586,014 | 5,660,432 |
| **Securities purchased under reverse repurchase agreements** | **3,140,228** | 2,538,285 | 3,652,498 | 3,107,841 | 2,879,986 |
| **Loans** | | | | | |
| Personal | **4,120,875** | 4,660,524 | 5,372,468 | 6,038,692 | 6,613,392 |
| Residential mortgage | **16,341,890** | 16,039,680 | 16,986,338 | 18,486,449 | 16,749,387 |
| Commercial | **12,730,360** | 12,646,332 | 11,839,106 | 11,464,007 | 9,386,119 |
| Customers' liabilities under acceptances | **—** | 319,992 | 196,776 | 707,009 | 629,825 |
| | **33,193,125** | 33,666,528 | 34,394,688 | 36,696,157 | 33,378,723 |
| Allowances for loan losses | **(173,522)** | (100,457) | (93,026) | (99,186) | (105,009) |
| | **33,019,603** | 33,566,071 | 34,301,662 | 36,596,971 | 33,273,714 |
| **Other** | **1,535,771** | 1,535,280 | 1,388,652 | 1,064,470 | 1,005,109 |
| | **$ 44,167,660** | $ 44,353,127 | $ 45,894,683 | $ 46,682,658 | $ 43,006,340 |
| **Liabilities and shareholders' equity** | | | | | |
| **Deposits** | | | | | |
| Personal | **$ 18,796,150** | $ 19,747,260 | $ 20,995,453 | $ 21,198,982 | $ 21,001,578 |
| Business, banks and other | **5,124,053** | 5,905,344 | 7,011,119 | 7,731,378 | 6,571,767 |
| | **23,920,203** | 25,652,604 | 28,006,572 | 28,930,360 | 27,573,345 |
| **Other** | **7,102,277** | 6,870,428 | 7,255,394 | 6,842,540 | 6,013,890 |
| **Debt related to securitization activities** | **10,184,497** | 8,913,333 | 7,787,753 | 8,230,921 | 7,244,454 |
| **Subordinated debt** | **349,442** | 349,101 | 348,762 | 348,427 | 199,824 |
| **Shareholders' equity** | **2,611,241** | 2,567,661 | 2,496,202 | 2,330,410 | 1,974,827 |
| | **$ 44,167,660** | $ 44,353,127 | $ 45,894,683 | $ 46,682,658 | $ 43,006,340 |

## Condensed Consolidated Statement of Income — Reported Basis

| For the years ended October 31 (in thousands of Canadian dollars, unaudited) | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Net interest income** | **$ 682,424** | $ 686,411 | $ 705,912 | $ 638,090 | $ 589,644 |
| **Other income** | **288,585** | 282,099 | 337,498 | 358,320 | 325,807 |
| **Total revenue** | **971,009** | 968,510 | 1,043,410 | 996,410 | 915,451 |
| **Amortization of net premium on purchased financial instruments** | **638** | 1,452 | 2,296 | 3,383 | 5,190 |
| **Provision for credit losses** | **116,300** | 44,400 | 44,000 | 37,000 | 33,350 |
| **Non-interest expenses** | **733,787** | 726,493 | 716,781 | 689,359 | 679,549 |
| **Income before income taxes** | **120,284** | 196,165 | 280,333 | 266,668 | 197,362 |
| Income taxes | **6,199** | 23,455 | 55,687 | 60,207 | 45,452 |
| **Net income** | **$ 114,085** | $ 172,710 | $ 224,646 | $ 206,461 | $ 151,910 |
| Preferred share dividends, including applicable taxes | **12,466** | 12,966 | 14,038 | 17,096 | 13,313 |
| **Net income available to common shareholders** | **$ 101,619** | $ 159,744 | $ 210,608 | $ 189,365 | $ 138,597 |

## Condensed Consolidated Statement of Income — Adjusted Basis[1]

| For the years ended October 31 (in thousands of Canadian dollars, unaudited) | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Net interest income** | **$ 682,424** | $ 686,411 | $ 705,912 | $ 638,090 | $ 589,644 |
| **Other income** | **288,585** | 282,099 | 337,498 | 358,320 | 325,807 |
| **Total revenue** | **971,009** | 968,510 | 1,043,410 | 996,410 | 915,451 |
| **Provision for credit losses** | **116,300** | 44,400 | 44,000 | 37,000 | 33,350 |
| **Adjusted non-interest expenses** | **701,857** | 700,103 | 695,775 | 658,492 | 636,796 |
| **Adjusted income before income taxes** | **152,852** | 224,007 | 303,635 | 300,918 | 245,305 |
| Adjusted income taxes | **14,646** | 30,780 | 62,075 | 70,177 | 58,292 |
| **Adjusted net income** | **$ 138,206** | $ 193,227 | $ 241,560 | $ 230,741 | $ 187,013 |
| Preferred share dividends, including applicable taxes | **12,466** | 12,966 | 14,038 | 17,096 | 13,313 |
| **Adjusted net income available to common shareholders** | **$ 125,740** | $ 180,261 | $ 227,522 | $ 213,645 | $ 173,700 |

## Highlights

| As at and for the years ended October 31 (in thousands of Canadian dollars, except per share and percentage amounts, unaudited) | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Profitability** | | | | | |
| Diluted earnings per share | **$ 2.37** | $ 3.77 | $ 5.10 | $ 5.40 | $ 4.55 |
| Return on common shareholders' equity | **4.4 %** | 7.0 % | 9.7 % | 10.9 % | 9.6 % |
| Net interest margin | **1.84 %** | 1.81 % | 1.78 % | 1.68 % | 1.71 % |
| Efficiency ratio | **75.6 %** | 75.0 % | 68.7 % | 69.2 % | 74.2 % |
| **Adjusted financial measures[1]** | | | | | |
| Adjusted diluted earnings per share | **$ 2.93** | $ 4.26 | $ 5.51 | $ 6.09 | $ 5.70 |
| Adjusted return on common shareholders' equity | **5.5 %** | 7.9 % | 10.5 % | 12.3 % | 12.0 % |
| Adjusted efficiency ratio | **72.3 %** | 72.3 % | 66.7 % | 66.1 % | 69.6 % |
| Adjusted dividend payout ratio | **72.9 %** | 61.4 % | 45.9 % | 40.5 % | 42.4 % |
| **Per common share** | | | | | |
| Closing share price[2] | **$ 26.21** | $ 45.30 | $ 41.56 | $ 60.00 | $ 49.57 |
| Price / earnings ratio | **11.1 x** | 12.0 x | 8.1 x | 11.1 x | 10.9 x |
| Book value | **$ 53.74** | $ 54.02 | $ 53.72 | $ 51.18 | $ 47.92 |
| Dividends declared | **$ 2.14** | $ 2.62 | $ 2.54 | $ 2.46 | $ 2.36 |
| Dividend yield | **8.2 %** | 5.8 % | 6.1 % | 4.1 % | 4.8 % |
| Dividend payout ratio | **90.2 %** | 69.3 % | 49.6 % | 45.7 % | 53.1 % |
| **Average volumes (in millions of dollars)** | | | | | |
| Average earning assets | **$ 37,019** | $ 37,837 | $ 39,663 | $ 38,055 | $ 34,458 |
| Average loans and acceptances | **$ 33,252** | $ 33,966 | $ 35,956 | $ 34,563 | $ 31,334 |
| Average common shareholders' equity | **$ 2,295** | $ 2,271 | $ 2,171 | $ 1,735 | $ 1,443 |
| **Credit quality** | | | | | |
| Provision for credit losses (as a % of average loans and acceptances) | **0.35 %** | 0.13 % | 0.12 % | 0.11 % | 0.11 % |
| **Regulatory capital ratio** | | | | | |
| Common Equity Tier 1[3] | **9.6 %** | 9.0 % | 9.0 % | 7.9 % | 8.0 % |
| **Other information** | | | | | |
| Number of common shares outstanding (in thousands) | **43,238** | 42,625 | 42,075 | 38,966 | 33,842 |
| Number of full-time equivalent employees | **2,939** | 3,256 | 3,642 | 3,732 | 3,687 |
| Number of branches | **63** | 83 | 96 | 104 | 145 |
| Number of automated banking machines[4] | **169** | 197 | 222 | 341 | 398 |

(1) Refer to the Non-GAAP and Key Performance Measures section.

(2) Toronto Stock Exchange (TSX) closing market price.

(3) Using the Standardized Approach in determining credit risk and operational risk.

(4) Through the Bank's partnership with THE EXCHANGE® Network, customers have access to more than 3,600 automated banking machines in Canada.

| As at and for the quarters ended (in thousands of Canadian dollars, except per share and percentage amounts, unaudited) | | | | 2020 | | | | 2019 |
|---|---|---|---|---|---|---|---|---|
| | Oct. 31 | July 31 | April 30 | Jan. 31 | Oct. 31 | July 31 | April 30 | JAN. 31 |
| **Profitability** | | | | | | | | |
| Total revenue | $243,539 | $248,609 | $240,148 | $238,713 | $ 241,638 | $244,653 | $ 239,881 | $242,338 |
| Net income | $ 36,811 | $ 36,217 | $ 8,885 | $ 32,172 | $ 41,343 | $ 47,798 | $ 43,313 | $ 40,256 |
| Diluted earnings per share | $ 0.79 | $ 0.77 | $ 0.13 | $ 0.68 | $ 0.90 | $ 1.05 | $ 0.95 | $ 0.88 |
| Return on common shareholders' equity | 5.9 % | 5.8 % | 1.0 % | 5.0 % | 6.6 % | 7.8 % | 7.3 % | 6.5 % |
| Net interest margin | 1.82 % | 1.86 % | 1.88 % | 1.81 % | 1.84 % | 1.85 % | 1.77 % | 1.80 % |
| Efficiency ratio | 72.9 % | 73.9 % | 76.4 % | 79.1 % | 74.8 % | 72.7 % | 76.3 % | 76.2 % |
| Operating leverage | 1.3 % | 3.4 % | 3.5 % | (5.7)% | (2.9)% | 4.9 % | (0.2)% | (10.0) % |
| **Adjusted financial measures**[1] | | | | | | | | |
| Adjusted net income | $ 42,311 | $ 47,083 | $ 11,912 | $ 36,900 | $ 47,966 | $ 51,882 | $ 48,726 | $ 44,653 |
| Adjusted diluted earnings per share | $ 0.91 | $ 1.02 | $ 0.20 | $ 0.79 | $ 1.05 | $ 1.15 | $ 1.08 | $ 0.98 |
| Adjusted return on common shareholders' equity | 6.8 % | 7.7 % | 1.5 % | 5.8 % | 7.8 % | 8.5 % | 8.3 % | 7.3 % |
| Adjusted efficiency ratio | 69.9 % | 68.1 % | 74.8 % | 76.6 % | 71.2 % | 70.6 % | 73.5 % | 74.0 % |
| Adjusted operating leverage | (2.7)% | 9.3 % | 2.3 % | (7.5)% | (0.9)% | 4.0 % | 0.6 % | (9.5) % |
| Adjusted dividend payout ratio | 43.7 % | 39.1 % | 328.7 % | 84.7 % | 62.6 % | 57.4 % | 60.3 % | 66.1 % |
| **Per common share** | | | | | | | | |
| Closing share price[2] | $ 26.21 | $ 26.55 | $ 31.09 | $ 42.95 | $ 45.30 | $ 45.41 | $ 42.44 | $ 44.17 |
| Price / earnings ratio (trailing four quarters) | 11.1 x | 10.7 x | 11.3 x | 12.0 x | 12.0 x | 11.3 x | 10.1 x | 9.6 x |
| Book value | $ 53.74 | $ 53.15 | $ 52.99 | $ 53.95 | $ 54.02 | $ 54.00 | $ 53.97 | $ 53.41 |
| Dividends declared | $ 0.40 | $ 0.40 | $ 0.67 | $ 0.67 | $ 0.66 | $ 0.66 | $ 0.65 | $ 0.65 |
| Dividend yield | 6.1 % | 6.0 % | 8.6 % | 6.2 % | 5.8 % | 5.8 % | 6.1 % | 5.9 % |
| Dividend payout ratio | 50.8 % | 52.0 % | 503.6 % | 98.6 % | 73.5 % | 62.7 % | 68.5 % | 73.9 % |
| **Credit quality** | | | | | | | | |
| Gross impaired loans (as a % of loans and acceptances) | 0.82 % | 0.84 % | 0.70 % | 0.56 % | 0.52 % | 0.59 % | 0.55 % | 0.56 % |
| Net impaired loans (as a % of loans and acceptances) | 0.59 % | 0.62 % | 0.52 % | 0.42 % | 0.40 % | 0.45 % | 0.42 % | 0.43 % |
| Provision for credit losses (as a % of average loans and acceptances) | 0.29 % | 0.27 % | 0.67 % | 0.18 % | 0.15 % | 0.14 % | 0.11 % | 0.12 % |
| **Regulatory capital ratio** | | | | | | | | |
| Common Equity Tier 1[3] | 9.6 % | 9.4 % | 8.8 % | 9.0 % | 9.0 % | 9.0 % | 9.0 % | 8.9 % |
| **Other information** | | | | | | | | |
| Number of common shares outstanding (in thousands) | 43,238 | 43,121 | 42,939 | 42,748 | 42,625 | 42,463 | 42,323 | 42,190 |

(1) Refer to the Non-GAAP and Key Performance Measures section.

(2) Toronto Stock Exchange (TSX) closing market price.

(3) Using the Standardized Approach in determining credit risk and operational risk.

## OUR APPROACH TO GOVERNANCE

A strong governance framework is essential to protecting the rights and interests of our stakeholders, empowering our employees and achieving success today and into the future. The policies, practices and relationships forming our governance framework allow us to balance stakeholder interests, effectively manage risk and conduct our business responsibly. The Board of Directors (the "Board") recognizes that governance practices will continue to evolve over time, in line with the changing scope of the Bank's business and operations, as well as emerging best practices. As part of its mandate, the Human Resources and Corporate Governance Committee (the "HRCG Committee") reviews and evaluates the Bank's governance practices against the standards set by OSFI and the securities regulatory authorities, as well as Canadian best practices in order to continue to meet the Board's objectives. The HRCG Committee regularly reports to the Board to ensure that important governance matters are appropriately discussed and deliberated.

All members of the Board of Directors, except the President and Chief Executive Officer, are independent and unrelated to the Bank's management. The independent status of the directors is determined in accordance with criteria established under applicable laws and regulations which are used by the HRCG Committee to evaluate the status of every director. Rules concerning directorships in other organizations have been instituted so as to ensure that no more than two directors sit on the board of the same public issuer (unless authorized by the Chair of the Board).

The Board has formalized its commitment towards diversity by adopting a board diversity policy. The Board has set as its target under the Diversity Policy that each gender comprises at least 30% of the Board's independent directors. The Board has also adopted a framework dealing with term limits for directors, Committee chairs and the Chair of the Board. Each year, Board members are asked to complete self-evaluations of their own performance, the performance of other Board members, including committee chairs and the Board Chair, as well as the performance of the Board as a whole and each committee respectively. The Board Chair meets with all Board members to discuss their evaluation; and the HRCG Committee Chair reports to the HRCG Committee and to the entire Board with respect to the conclusions of the performance evaluation process and makes recommendations on Board composition and other potential improvements.

The role of the Board is essentially to oversee the management of the business affairs of the Bank. The Board and its committees hold in-camera sessions with the heads of the oversight functions and with the external auditors. They also regularly meet in the absence of management. The members of the Board commit to act in accordance with standards set forth in the Directors' Code of Conduct, which covers issues such as general conduct, contribution to the work of the Board and its committees, insider trading, conflicts of interest and other situations that may affect a director's independence. The Directors' Code of Conduct and the Employee Code of Conduct are reviewed annually to ensure that they provide ethical guidance at all levels of the organization. Board members and, employees annually declare that they have read, understood and complied with our codes of conduct. These codes are reinforced by governance policies, such as the Insider Trading Policy, the Related Party Policy, Whistleblower Policy and Anti-Money Laundering and Anti-Terrorist Financing Policy.

The Bank also has processes in place to manage conflicts of interest and related party transactions. Any loan to a Board member or an officer or investment to a company in which a Board member or an officer has declared an interest is approved by an internal committee and reported to the Risk Management Committee. The Board has delegated some of its powers and functions to three committees, subject to Board oversight, being: the Audit Committee, the Risk Management Committee, and the Human Resources and Corporate Governance Committee, whose members are appointed from among its independent directors. All committees regularly submit updates and reports on their work to the Board of Directors. Furthermore, the committees present a report to shareholders on their activities that is included in the Bank's Management Proxy Circular.

## GOVERNANCE HIGHLIGHTS

**Covid-19 response:** In fiscal 2020, the health and safety of the Bank's employees and their families, customers, suppliers and stakeholders was the Board's top priority. Board members were actively involved in the Bank's efforts to respond to the COVID-19 pandemic, resulting in a significant increase in the number of Board meetings. The Board met regularly with management to discuss appropriate measures to identify, monitor and manage the COVID-19 pandemic and to implement and adapt its pre-pandemic business continuity plan, as physical distance and working from home became the norm. The business and regulatory impact of COVID-19 is constantly evolving, and the Board and management teams are continually reviewing and adapting the Business Continuity Plan to reflect these changes.

**Board renewal:** The Board welcomed a new independent director in 2020 to complete the profile of the existing Board of Directors, adding further expertise to its Audit and Risk Management Committees and new perspectives to the Board of Directors. The Board also formed a special committee to oversee the appointment of the new President and CEO and a member of the Board of Directors. Ms. Llewellyn became the first woman to lead a major Canadian bank.

**Environment and social governance:** In terms of our responsibilities to the environment, the Board continued to monitor the implementation of measures to improve the Bank's disclosure practices leading to the adoption of the recommendations of the Task Force on Climate Related Financial Disclosure (TCFD). Furthermore, as part of its diversity and inclusion efforts, the Bank has joined the BlackNorth Initiative to create a new path that includes Black Canadians. The Board and the Bank will work together to develop an action plan to align the Bank's practices with the seven goals of the BlackNorth Initiative.

For further information on the Bank Corporate Governance Practices, please refer to the pages 44 to 54 of the Bank's 2020 Management Proxy Circular.

## AUDIT COMMITTEE

The primary function of the Audit Committee is to support the Board of Directors in overseeing the integrity of the Bank's financial statements, the relevance and effectiveness of its internal controls, the qualifications and independence of the external auditor and the performance of the internal audit function and of the external auditor. In order to do so, the Board has appointed directors meeting the criteria of independence and possessing the appropriate level of financial literacy. The Committee meets on a regular basis with the internal audit function and external auditor, respectively, without the presence of management. Furthermore, the Committee meetings end with a discussion period held without the presence of management.

The Committee's responsibilities include more specifically:

**With respect to the external auditor:** recommend the appointment or dismissal of the external auditor; ensure its competence, independence, and the adequacy of its resources; review the scope of its mission and compensation; oversee its activities and evaluate its performance; and approve the external auditor's oversight policy and the Bank's policy on non-audit related services.

**With respect to financial information:** oversee the integrity and quality of financial statements and ensure that the Bank's accounting practices are prudent and appropriate; prior to publication, review the annual and interim financial statements, management's discussion and analysis and press releases regarding the Bank's results, as well as review the annual information form and any other documents required by regulatory authorities; review the annual financial statements of the subsidiaries supervised by the Office of the Superintendent of Financial Institutions.

**With respect to the internal audit function:** approve the internal audit's charter and plan; ensure the competence, independence and adequacy of internal audit resources; follow up on material findings and recommendations.

**With respect to internal controls:** ensure that management implements appropriate internal controls and information management systems; ensure their integrity and effectiveness; ensure that management implements procedures regarding the receipt, retention and handling of complaints received with respect to accounting, internal controls or audit.

**With respect to oversight agencies:** follow up on the findings and recommendations of oversight authorities.

## RISK MANAGEMENT COMMITTEE

The Risk Management Committee ensures that the Bank has adopted an adequate and effective risk management process, including the identification, assessment and management of risks, as well as the development of adequate policies concerning credit, market, liquidity and financing, operational, capital management, regulatory and reputational risks. The Committee is composed of independent directors who meet on a regular basis with officers in charge of oversight functions (the internal auditor as well as the chief risk officer and the chief compliance officer) without the presence of management. Furthermore, the Committee meetings end with a discussion period held without the presence of management.

The Committee's responsibilities include more specifically:

**With respect to risk management:** ensure that management identifies the organization's principal risks and implements systems to measure and adequately manage them; provide for the integrity and effectiveness of such systems; review the overall risk profile and risk management framework of the Bank; ensure the competence, independence and the adequacy of the risk management function and approve its mandate; follow up on material findings and recommendations; review and, if applicable, approve loans, which under the credit policies, are the responsibility of the Committee; examine the quality of the Bank's loan portfolio and the adequacy of allowances for loan losses; ensure that management adopts a process to determine the appropriate level of capital for the Bank based on assumed risks; review and approve the Code of Ethics and Privacy Code for the Protection of Personal Information applicable to officers and employees of the Bank and ensure they are complied with; review and follow-up with regulatory authorities on findings and recommendations.

**With respect to compensation:** annually review, in collaboration with the Human Resources and Corporate Governance Committee, the alignment of the Bank's compensation, performance and assumed risk with the remuneration standards and principles issued by the Financial Stability Board.

In addition to these responsibilities, the Committee also exercises review functions to ensure that management establishes mechanisms for dealing with related party transactions, as well as to review the procedures and their effectiveness. The Committee reports annually on these functions to the Superintendent of Financial Institutions.

## HUMAN RESOURCES AND CORPORATE GOVERNANCE COMMITTEE

The Human Resources and Corporate Governance Committee is composed of independent directors. The Committee meetings end with a discussion period held without the presence of management.

The Committee's human resources responsibilities include:

**With respect to human resources management:** annually review the performance management process and evaluate its effectiveness; ensure that management implements a plan to promote the hiring, retention and motivation of qualified personnel.

**With respect to senior officers:** review appointments of senior officers; approve the establishment of objectives for members of the Executive Committee and evaluate their performance; ensure the competence and qualifications of senior officers; and ensure the integrity of senior officers and their adoption of a culture of integrity throughout the Bank.

**With respect to compensation:** approve the overall compensation framework (including incentive compensation, perquisites and pension plans) for senior officers, with a view of furthering the Bank's business objectives, as well as approve the material terms and conditions of the compensation and employment conditions applicable to the Bank's other employees and officers; annually approve, in collaboration with the Risk Management Committee, the alignment of the Bank's compensation, performance and assumed risk with the remuneration standards and principles issued by the Financial Stability Board.

**With respect to pension plans:** ensure that management implements appropriate internal control mechanisms with a view of adequately managing its pension plans.

The Committee's corporate governance responsibilities include :

**With respect to the President and Chief Executive Officer:** recommend the appointment or dismissal of the President and Chief Executive Officer to the Board; recommend annually to the Board the objectives of the President and Chief Executive Officer, as well as his/her evaluation, compensation and employment conditions; and implement a succession plan for the President and Chief Executive Officer.

**With respect to the Board and its Committees:** review corporate governance rules and ensure they are complied with; review the Board's composition (taking the diversity of members into account), its compensation and its size; review the constitution, membership and functions of its Committees; review the Directors' Code of Conduct and ensure it is complied with; ensure ongoing training for the members of the Board; approve the criteria to evaluate the independence of Board members and assess their independence periodically; evaluate the Board and its members; and ensure the recruitment of new Board members to be submitted for election by shareholders, and see to their orientation and integration.

**With respect to public disclosure:** review information on corporate governance prior to its disclosure; ensure that shareholders are well informed of the Bank's affairs and ensuring an appropriate framework is in place for shareholder and broader stakeholder engagement and feedback.

The complete text outlining the functions of the Board of Directors and the mandates of each of its Committees can be found in the Corporate Governance section on the Bank's website. Committee reports to shareholders can be consulted in the Bank's Management Proxy Circular.

## CONSOLIDATED SUBSIDIARIES

| As at October 31, 2020 (in thousands of Canadian dollars, unaudited) | Head office location | Book value of voting shares owned by the Bank[1] | Percentage of voting shares owned by the Bank[1] |
|---|---|---|---|
| **Corporate name** | | | |
| B2B Bank | Toronto, Canada | $669,087 | 100 % |
| *Wholly-owned subsidiaries* | | | |
| B2B Bank Financial Services Inc. | Toronto, Canada | | |
| B2B Bank Securities Services Inc. | Toronto, Canada | | |
| B2B Bank Intermediary Services Inc. | Toronto, Canada | | |
| B2B Trustco | Toronto, Canada | | |
| B2B Securitization Inc. | Toronto, Canada | | |
| B2B Securitization Limited Partnership[2] | Toronto, Canada | | |
| Laurentian Bank Insurance Inc. | Montreal, Canada | $20 | 100 % |
| Laurentian Bank Securities Inc. | Montreal, Canada | $172,116 | 100 % |
| *Wholly-owned subsidiary* | | | |
| Laurentian Capital (USA) Inc. | Montreal, Canada | | |
| Laurentian Trust of Canada Inc. | Montreal, Canada | $104,794 | 100 % |
| LBC Capital Inc.[3] | Burlington, Canada | $2,187,384 | 100 % |
| *Wholly-owned subsidiaries* | | | |
| LBEF Inc. | Burlington, Canada | | |
| LBEL Inc.[3] | Burlington, Canada | | |
| LBC Capital GP Inc. | Burlington, Canada | | |
| *Wholly-owned subsidiary* | | | |
| LBC Leasing Limited Partnership[4] | Burlington, Canada | | |
| Northpoint Commercial Finance Canada Inc. | Burlington, Canada | | |
| NCF Commercial Finance Holdings Inc. | Alpharetta, United States | | |
| *Wholly-owned subsidiary* | | | |
| Northpoint Commercial Finance LLC | Alpharetta, United States | | |
| LBC Financial Services Inc. | Montreal, Canada | $363,720 | 100 % |
| LBC Finco Inc. | Montreal, Canada | n.m. | 100 % |
| LBC Investment Management Inc. | Montreal, Canada | $391,107 | 100 % |
| *Wholly-owned subsidiary* | | | |
| V.R. Holding Insurance Company Ltd | St. James, Barbados | | |
| *Wholly-owned subsidiaries* | | | |
| Venture Reinsurance Company Ltd | St. James, Barbados | | |
| VRH Canada Inc. | Montreal, Canada | | |
| LBC Tech Inc. | Toronto, Canada | $276 | 100 % |
| LBC Trust | Montreal, Canada | $79,931 | 100 % |
| NCF International Holding Kft | Budapest, Hungary | $66,432 | 100 % |
| *Wholly-owned subsidiary* | | | |
| NCF International KFT | Budapest, Hungary | | |

(1) The book value of shares with voting rights corresponds to the Bank's interest in the shareholders' equity of the subsidiaries.

(2) B2B Bank holds 99.99% of the units of B2B Securitization Limited Partnership and B2B Securitization Inc. holds the remaining 0.01%.

(3) LBC Capital Inc. holds 85% of voting shares of LBEL Inc.. and VHR Canada Inc. holds the remaining 15%.

(4) LBEL Inc. holds 99.99% of the units of LBC Leasing Limited Partnership and LBC Capital GP Inc. holds the remaining 0.01%.

**Allowances for Credit Losses** represent the Bank's estimate of expected credit losses (ECL) at the balance sheet date. ECLs are a probability-weighted estimate of credit losses over the remaining expected life of the financial instrument. These allowances are primarily related to loans and acceptances and off-balance sheet exposures, including letters of guarantee and certain undrawn amounts under approved credit facilities.

**Alt-A Mortgages** represent a classification of mortgages where borrowers have a clean credit history consistent with prime lending criteria. However, characteristics about the mortgage such as loan to value, loan documentation, occupancy status or property type, may cause the mortgage not to qualify under standard underwriting programs.

**Assets Under Administration** mostly refers to assets related to registered and non-registered investment accounts, clients' brokerage assets, mutual funds and loans administered by the Bank that are beneficially owned by clients and therefore not reported on the balance sheet of the Bank.

**Average Earning Assets** include the Bank's loans net of allowances, as well as interest-bearing deposits with other banks, securities, securities purchased under reverse repurchase agreements used in the Bank's treasury operations and derivatives, but exclude average earning assets related to trading activities. The averages are based on the daily balances for the period.

**Bankers' Acceptances (BAs)** are bills of exchange or negotiable instruments drawn by a borrower for payment at maturity and accepted by a bank. BAs constitute a guarantee of payment by the Bank and can be traded in the money market. The Bank earns a "stamping fee" for providing this guarantee.

**Basel II** is the second of the Basel Accords, which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision (BCBS). The purpose of Basel II is to create an international standard that banking regulators can use when creating regulations about how much capital banks need to put aside to guard against the types of financial and operational risks banks face. The Basel II Accord also introduced the Advanced Internal-Ratings Based (AIRB) approach for credit risk.

**Basel III** is a comprehensive set of reform measures, developed by the BCBS, to strengthen the Basel II Accord as well as the supervision and risk management of the banking sector. These measures also introduced liquidity adequacy requirements.

**Basis Point**: One one-hundredth of a percentage point.

**Book Value per Common Share** is defined as common shareholders' equity divided by the number of common shares outstanding at the end of the period.

**Capital Ratios** are defined as either CET1 Capital, Tier 1 Capital or Total Capital divided by risk-weighted assets.

**Common Equity Tier 1 Capital (CET1)** represents, under Basel III, more permanent forms of capital, and primarily consists of common shareholder's equity and accumulated other comprehensive income (AOCI), less a deduction for goodwill, software and other intangibles, pension assets, cash flow hedge reserves and certain other deductions prescribed by OSFI.

**Common Shareholders' Equity** is defined as the sum of the value of common shares, retained earnings and AOCI, excluding cash flow hedge reserves.

**Credit and Counterparty Risk** is the risk of a financial loss occurring if a counterparty (including a debtor, an issuer or a guarantor) in a transaction fails to fully honour its contractual or financial obligation towards the Bank.

**Derivatives** are contracts whose value is "derived" from movements in interest or foreign exchange rates, or equity or commodity prices. Derivatives allow for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

**Dividend Payout Ratio** is defined as dividends declared on common shares as a percentage of net income available to common shareholders.

**Dividend Yield** represents dividends declared per common share divided by the closing common share price.

**Earnings per Share (EPS)** is calculated by dividing net income after deduction of preferred dividends, by the average number of common shares outstanding. Diluted EPS is calculated by adjusting the number of shares outstanding for possible conversions of financial instruments into common shares.

**Effective Interest Rate** represents the discount rate applied to estimated future cash payments or receipts over the expected life of the financial instrument to arrive at the net carrying amount of the financial asset or liability.

**Efficiency Ratio** is a measure of productivity and cost control. It is defined as non-interest expenses as a percentage of total revenue.

**Fair Value** is the estimated price that would be received or paid in an orderly transaction between market participants at the measurement date.

**Hedging** is a risk management technique used to neutralize or manage interest rate, foreign currency, or credit exposures arising from normal banking activities by taking positions that are expected to react to market conditions in an offsetting manner.

**Impaired Loans**: The Bank considers a financial asset to be impaired when one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred or when contractual payments are 90 days past due.

**Leverage Ratio** is comprised of Tier 1 capital, divided by unweighted on-balance sheet assets and off-balance sheet commitments, derivatives and securities financing transactions.

**Liquidity Coverage Ratio** measures the sufficiency of high-quality liquid assets available to meet net short-term financial obligations over a thirty day period in an acute stress scenario.

**Net Interest Income** is comprised of earnings on assets, such as loans and securities, including interest and dividend income, less interest expense paid on liabilities, such as deposits.

**Net Interest Margin** is the ratio of net interest income to average earning assets, expressed as a percentage or basis points.

**Notional Amount** refers to the principal used to calculate interest and other payments under derivative contracts.

**Off-Balance Sheet Financial Instruments** represent a variety of financial arrangements offered to clients, which include for the Bank derivatives, credit commitments and guarantees, and other indemnifications.

**Office of the Superintendent of Financial Institutions Canada (OSFI)** is the primary Canadian regulator and supervisor of federally regulated deposit-taking institutions, which include banks, insurance companies and federally regulated private pension plans.

**Operating Leverage** is the difference between total revenue and non-interest expenses growth rates.

**Options** are contractual agreements between two parties in which the writer of the option grants the buyer the right, but not the obligation, to either buy or sell, at or by a specified date, a specific amount of a financial instrument at a price agreed upon when the agreement is entered into. The writer receives a premium for selling this instrument.

**Provision for Credit Losses** is an amount charged or credited to income to adjust the allowances for credit losses to the appropriate level, for both performing and impaired financial assets.

**Return on Common Shareholders' Equity** is a profitability measure calculated as the net income available to common shareholders as a percentage of average common shareholders' equity.

**Risk-Weighted Assets** are assets calculated by applying a risk-weight factor to on and off-balance sheet exposure. The Bank uses standardized risk-weight factors as stipulated by OSFI, based on the guidelines developed by the Bank for International Settlement (BIS).

**Securities Purchased Under Reverse Repurchase Agreements and Obligations Related to Securities Sold Under Repurchase Agreements** are short-term purchases of securities under agreements to resell as well as short-term sales of securities under agreements to repurchase at predetermined prices and dates. Given the low risk transfer associated with these purchases and sales, these agreements are treated as collateralized lending.

**Swaps** are contractual agreements between two parties to exchange a series of cash flows for a specified period of time. The various swap agreements that the Bank enters into are interest rate swaps, cross-currency swaps, foreign exchange swaps and total return swaps.

**Tier 1 Capital** primarily consists of CET1 and preferred shares.

**Total Capital** includes Tier 1 and Tier 2 capital, net of certain deductions. Tier 2 capital is primarily comprised of subordinated debt and the eligible portion of collective allowances for loan losses.

### Corporate offices

*Montreal*
1360 René-Lévesque Blvd West,
Suite 600
Montreal, Quebec H3G 0E5
www.lbcfg.ca

*Toronto*
199 Bay St, Suite 600
Toronto, Ontario M5L 0A2
www.lbcfg.ca

### Ombudsman's office

1360 René-Lévesque Blvd West,
Suite 600
Montreal, Quebec H3G 0E5
ombudsman@lbcfg.ca
Tel.: 514-284-7192
or 1-800-479-1244

### Transfer agent and registrar

Computershare Investor
Services Inc.
1500 Robert-Bourassa Blvd,
Suite 700
Montreal, Quebec H3A 3S8
service@computershare.com
Tel.: 514-982-7888

### Change of address and inquiries

Shareholders must notify the Bank's transfer agent and registrar of any change of address. Inquiries or requests may be directed to the Bank's Corporate Secretariat's Office at secretary.office@lbcfg.ca or by calling 514-284-4500, ext. 48395.

### Direct deposit service

Shareholders of the Bank may, by advising the transfer agent in writing, have their dividends deposited directly into an account held at any financial institution member of the Payments Canada.

### Investors and analysts

Investors and analysts may contact the Bank's Investor Relations Department at investor.relations@lbcfg.ca or by calling 514-970-0564.

### Media

Journalists may contact the Bank's Executive Office at media@lbcfg.ca or by calling 514-284-4500, ext. 40020.

### Social media

### Dividend reinvestment and share purchase plan

The Bank has a dividend reinvestment and share purchase plan for Canadian holders of its common and preferred shares under which they can acquire common shares of the Bank without paying commissions or administration fees. Participants acquire shares through the reinvestment of cash dividends paid on the shares they hold or through optional cash payments of a minimum amount of $500 per payment, up to an aggregate amount of $20,000 in each 12 month period ending October 31.

For more information, shareholders may contact the Bank's transfer agent, Computershare Trust Company of Canada, at service@computershare.com or by calling 1-800-564-6253.
To participate in the plan, the Bank's non-registered shareholders must contact their financial institution or broker.

## STOCK SYMBOL AND DIVIDEND RECORD AND PAYMENT DATES

| The common and preferred shares indicated below are listed on the Toronto Stock Exchange. | CUSIP CODE / STOCK SYMBOL | RECORD DATE* | DIVIDEND PAYMENT DATE* |
|---|---|---|---|
| Common shares | 51925D 10 6 / LB | First business day of: | |
| | | January | February 1 |
| | | April | May 1 |
| | | July | August 1 |
| | | October | November 1 |
| Preferred shares | | | |
| Series 13 | 51925D 82 5 / LB.PR.H | ** | March 15 |
| Series 15 | 51925D 79 1 / LB.PR.J | ** | June 15 |
| | | ** | September 15 |
| | | ** | December 15 |

* Subject to the approval of the Board of Directors.
** On such day (which shall not be more than 30 days preceding the date fixed for payment of such dividend) as may be determined from time to time by the Board of Directors of the Bank.

**Laurentian Bank of Canada**
1360 René-Lévesque Boulevard West, Suite 600
Montreal, Quebec  H3G 0E5

**B2B Bank**
199 Bay Street, Suite 600
Toronto, Ontario  M5L 0A2

**LBC Capital Inc.**
5035 South Service Road
Burlington, Ontario  L7L 6M9

**LBC Financial Services Inc.**
1360 René-Lévesque Boulevard West, Suite 630
Montreal, Quebec  H3G 0E5

**Laurentian Bank Securities Inc.**
1360 René-Lévesque Boulevard West, Suite 620
Montreal, Quebec  H3G 0E5

**LBC Tech Inc.**
199 Bay Street, Suite 600
Toronto, Ontario  M5L 0A2

**Northpoint Commercial Finance**
1105 Lakewood Parkway, Suite 210
Alpharetta, Georgia  30009

The photographs of the cover page, Michael Mueller and the Executive Team were taken by **Yves Lacombe**.
Design: **Gauthier**

ISBN 978-2-9816451-9-7
Legal Deposit — Bibliothèque et Archives nationales du Québec, 2020
Legal Deposit — Library and Archives Canada, 2020

lbcfg.ca