2021 Annual Report

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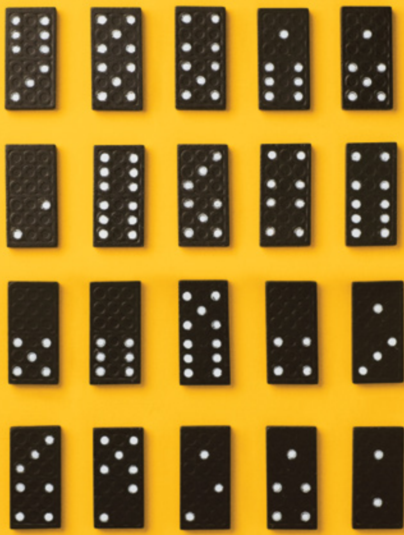
Laurentian Bank. Seeing beyond numbers.

Our purpose

We believe we can **change banking** for the better. By seeing beyond numbers to **bring hopes and dreams** to life. Better begins when everyone feels like they belong and has the **chance to thrive**.



Our core values

We place our **customers first**
We work together as **One Team**
We act **courageously**
We are **results driven**
We believe **everyone belongs**

Who we are

At Laurentian Bank, we believe we can change banking for the better. By seeing beyond numbers.

Founded in Montreal in 1846, Laurentian Bank helps families, businesses and communities thrive. Today, we have 2,800 employees working together as one team, to provide a broad range of financial services and advice-based solutions for customers across Canada and the United States.

We drive results by placing our customers first, making the better choice, acting courageously, and believing everyone belongs.

Our Operations

Commercial Banking

Our Commercial Bank is the growth engine of the Bank, offering our customers in-depth industry knowledge in four specialized areas of lending:

- Real estate financing;
- Equipment financing;
- Inventory financing; and,
- Commercial SME and Syndication

This specialized approach, combined with our team's focus on customer-centricity, has led to long-term relationships and sustainable growth.

Personal Banking

Our One Personal Bank delivers an omni-channel experience for our 460,000+ customers:

- Branch Network – The Bank is proud of its 175-year roots and strong brand recognition in Quebec. Our Quebec-based branch network has evolved to a focused 100% advice model.
- Digital Banking – Through our digital-first approach, we offer Digital Banking products and services to customers across Canada and have recently improved our digital offering including the launch of our new mobile app for LBC *Direct* customers.
- Advisors and Brokers channel – We are a leading provider of banking products and services to a strong network of financial advisors and mortgage brokers across Canada.

Capital Markets

Our Capital Markets division offers our customers unique, appropriate, focused and value-added financial products and services at competitive prices through an efficient and diversified distribution network. Key activities include:

- Originating, selling and trading Canadian Fixed Income securities;
- Debt Capital Markets capability targeting government relationships across federal, provincial, municipal and related issuers; and,
- Core verticals and cross-sell opportunities with Commercial Banking to leverage deep customer relationships, as well as Resource and Diversified Quebec Industries.

2021 Highlights

$1.0
Total Revenue ($ billions)

$57.1
Net Income ($ millions)

$1.03
Diluted Earnings per Share

$45.1
Total Assets ($ billions)

$211.2
Adjusted Net Income[1, 4] ($ millions)

$4.57
Adjusted Diluted Earnings per Share[2, 4]

$33.6
Loans and Acceptances ($ billions)

1.9%
Return on Common Shareholders' Equity[2, 4]

87.8%
Efficiency Ratio[3, 4]

$23.0
Deposits ($ billions)

8.3%
Adjusted Return on Common Shareholders' equity[2, 4]

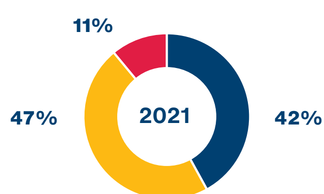
68.2%
Adjusted Efficiency Ratio[2, 4]

[1] This is a non-GAAP financial measure.
[2] This is a non-GAAP ratio.
[3] This is a supplementary financial measure.
[4] For more information, refer to the non-GAAP financial and other measures section beginning on page 28 of the 2021 Annual Report, including the Management's Discussion and Analysis (MD&A) for the fiscal year ended October 31, 2021, which page is incorporated by reference herein. The MD&A is available on SEDAR at sedar.com.

Solid financial foundation and good diversification

Loan portfolio mix

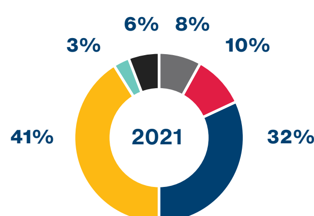
A good proportion of higher margin commercial loans in the Bank mix



- Commercial loans
- Residential mortgage loans
- Personal loans

Geographic footprint

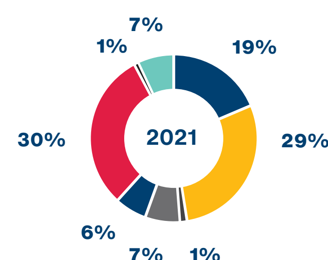
Loans across Canada and the United States



- British Columbia and Territories
- Alberta & Prairies
- Ontario
- Quebec
- Atlantic Provinces
- United States

Multiple funding sources

Well-diversified funding sources to support our growth



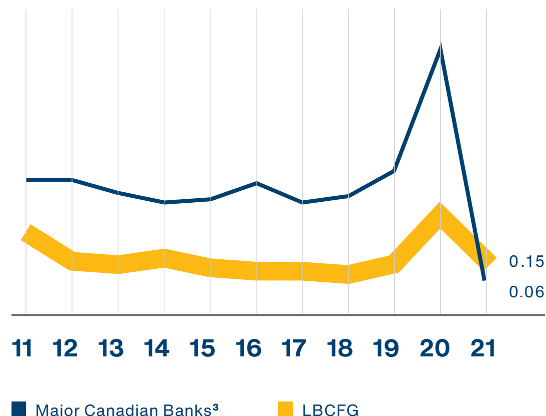
- Personal — Branch deposits
- Personal — Advisors & Brokers deposits
- Personal — Digital deposits
- Business deposits
- Wholesale deposits
- Debt related to securitization activities
- Subordinated debt
- Shareholders' equity

A healthy capital position

Common Equity Tier 1 capital ratio[1]
(%)

Good track record of strong credit quality

Provision for credit losses[2]
(in % of average loans and acceptances)



- Major Canadian Banks[3]
- LBCFG

[1] In accordance with OSFI's "Capital Adequacy Requirements".

[2] This is a supplementary financial measure. For more information, refer to the non-GAAP financial and other measures section beginning on page 28 of the 2021 Annual Report, including the MD&A for the fiscal year ended October 31, 2021, which page is incorporated by reference herein. The MD&A is available on SEDAR at sedar.com.

[3] Weighted-average PCL based on industry data.

Message from the Chair of the Board

"Laurentian Bank has had a remarkable year of change – building a new executive team and resetting its culture – and now we are pivoting to the future."

Mike Mueller

Laurentian Bank celebrated its 175th anniversary this year. This anniversary is an incredible milestone and an ideal opportunity to reflect on the Bank's remarkable past and to celebrate the strength of its roots. We are very proud to have been a part of the fabric of the Quebec and Canadian economies for 175 years and look forward to continuing to serve our customers across Canada and the US, and provide meaningful value for our shareholders, for the next 175 years and more.

The New Normal

I would not have imagined a second letter to our shareholders in year two of a global pandemic, with many people still working remotely. From the first inkling of COVID-19, the Board's main priorities were the safety of our employees and customers, and a close second was supporting personal and commercial customers to ensure we could do everything we could during their time of need.

As a Board, we quickly found our own cadence, meeting remotely as frequently as required to keep the lines of communication open, to make decisions, and to support and enable our leadership team. Indeed, we had much to do, and we have the utmost confidence in our committee structure and process, enabling us to spend the majority of our time focusing on strategic issues.

A year of change

Looking back at this past year, I could not be prouder of our CEO, Rania Llewellyn, her new executive team and all employees – and how they have come together as **One Team**. First and foremost, the creation of a new leadership team has been at the heart of Rania's first successful year as Laurentian Bank's CEO. She's done an amazing job at bringing together an incredibly talented group of leaders from both inside and outside the Bank. This alone would have been no easy task, but she's done it with a shared vision, transparency, trust and respect. 2021 was a year of resetting for the Bank – its strategy, culture, and purpose. It was also a year where the Bank delivered improved adjusted financial results for its shareholders.

Building for tomorrow

Rania is a courageous and bold CEO – exactly what Laurentian Bank requires to succeed. The vision of the Bank's renewed leadership team is one that the entire Board embraces, and it's our job to offer the right support to enable the team to execute flawlessly. This will, of course, bring change and with it, some difficult decisions. We have in front of us a tremendous opportunity to increase our nimbleness and deliver on our plans which will put us on a stronger footing moving forward to drive shareholder value.

As the Bank has shored up its talent, we too are constantly looking at building the capabilities around our Board. As our strategic plan pivots, so too will our skillset demand. We're proud to already be a leader in diversity that includes gender parity, but we know we have more work to do. This Board is absolutely focused on being just as diverse and inclusive as the Bank.

The Board continued to take an active role in Laurentian Bank's Environmental, Social and Governance (ESG) initiatives, and have updated our Board and committee mandates to include oversight of ESG. This is clearly a strategic business imperative and we are giving it an augmented level and energy to ensure we're making progress. We don't just leave it up to training events, we treat it as one of our core responsibilities and keep ESG front and centre by discussing aspects of ESG at every single board meeting.

On the Environment front, in 2019 the Bank publicly committed to the Task Force for Climate-Related Financial Disclosures (TCFD) recommendations. It has made good progress on its TCFD roadmap in 2021, including establishing an internal task force chaired by the Bank's CFO, and launching a comprehensive climate risk assessment of the Bank's operations and activities.

Where we feel the Bank can make a particular difference is around Social, clearly evidenced by our hiring of the first ever woman to lead a major Canadian Chartered Bank, and having been Canada's first Bank to appoint a woman as Chair in 1998. We care deeply about giving everyone a chance – when it comes to both our employees and customers – our roots are as a Bank which serves the underserved. At Laurentian Bank, everyone belongs.

On the technology front, the Bank is focused on continuous improvement. It's an area of focus for the Board: from cybersecurity – ensuring that the Bank's customers' personal information and data is safe and secure – to improving the digital customer experience to meet their demands wherever they do their banking, with the recent rollout of our mobile app. I am confident that the Bank has the right leaders in place to continue to build up our technological capabilities and solutions in the years to come.

In a word: Pride

In closing, on behalf of the entire Board, I cannot express how impressed we are with the new Laurentian Bank executive team. They have set the new course and have come together with the Bank's engaged and empowered employees with renewed passion, energy, purpose, and drive to succeed. I'm extremely proud of how far we've come in one short year and excited about how far we can go as we pivot forward.

To my fellow Board members, thank you for your hard work, your advice and your counsel this year. A special thank you to every employee of the Laurentian Bank family – for your commitment to placing the customer at the centre of everything you do, and for living and believing that everyone belongs here. And, finally, thank you to my fellow shareholders for your support, loyalty and trust in Laurentian Bank.

Michael Mueller
Chair of the Board

Message from the President and CEO

As I reflect on 2021 – which marked the Bank's 175th year anniversary – I want to express my deep thanks to the Laurentian Bank team for their tireless work in serving our valuable customers and maintaining the Bank's operations, while we continue to collectively navigate through the COVID-19 pandemic. Together, they demonstrated that we are stronger when we work as One Team.

> **"I'm extremely proud of everything we accomplished in resetting and rebuilding the Bank in 2021 as One Winning Team. I look forward to 2022 – a year of execution – with optimism, excitement, and renewed confidence."**
>
> Rania Llewellyn

Looking back – 2021 accomplishments

When I was first appointed as President and CEO, we outlined our three priorities for 2021 which have been successfully achieved:

- Renewed the Bank's senior leadership team with four experienced external executives and two internal promotions;
- Identified a number of opportunities for cost savings, and executed against those initiatives reducing our overall adjusted efficiency ratio by 410 bps to 68.2% for the year; and,
- Conducted a thorough review of the Bank's operations. We are confident that our new three-year plan will position the Bank for sustainable, long-term growth by focusing on areas where we can continue to differentiate ourselves, with a customer-first approach.

2021 was a year of **resetting** and **rebuilding**. All of the year's initiatives, including the strategic review, were guided by our three strategic pillars: **Cultivating a 'Customer First' Culture; Driving an Agile and Innovative Mindset; and, Engaging and Empowering our Teams**. These three pillars became our guideposts for every decision we made. Our adherence and discipline to them has propelled our business forward, driving customer and employee loyalty, and adding value for our shareholders.

While there is much to be proud of, we also know there is still a great deal of more work to be done. Before we continue our journey forward, I want to acknowledge some notable accomplishments over the past year.

Our Financials

From a financial perspective, we closed the year with net income of $57.1 million for the fiscal year 2021. Results were impacted by charges related to its strategic review of $209 million before taxes that were recorded in the fourth quarter. Adjusted net income for fiscal 2021 was $211.2 million or 53% higher than in 2020. Other milestones we're particularly proud of include:

- An upgraded credit outlook from both S&P and DBRS.
- Our Real Estate Finance Group reached a new milestone generating $5.2 billion of asset growth.
- Our Capital Markets business had a record year.
- Our liquidity levels are healthy and our capital position is strong with a CET 1 ratio of 10.2%, up 60 bps year over year.

Our Customers

From the very beginning of the pandemic, the **health and safety** of our customers remained a key priority. Our mandate has been to ensure we could continue to deliver all our customers' banking needs, while listening and supporting them on a case-by-case basis to help each customer navigate and mitigate financial impacts and hardships wherever we could.

The challenges of significantly reduced face-to-face interactions with our customers led to an expedited introduction and expansion of tools to allow us to serve our customers remotely, including implementing DocuSign for our Personal and Commercial Banking customers, and launching the Bank's first-ever **mobile app** for Personal Banking customers, which was developed in under seven months.

While COVID-19 prevented us from celebrating the Bank's historic **175th anniversary** with the fanfare we would have liked, we still found a number of opportunities to celebrate this historic milestone and the Bank's deep roots in Quebec. For our Personal Banking customers, we launched a series of special products and offers, including a new High Interest Savings Account and two Action GICs. And, for our communities, we launched a new donation campaign – **Laurentian in the Community** – which empowered employees to choose the local charitable or not-for-profit organization to be the recipient of these donations.

In order to improve the mortgage experience for our customers, this past year we launched a series of new programs, including a first-ever concierge service for top-tier mortgage brokers, a pilot that segments and differentiates brokers to improve the customer experience, and a dedicated end to end file ownership structure to improve our response time and service levels, all while maintaining our disciplined underwriting standards.

Finally, we are more committed than ever to stay in constant communication with our customers to better understand their experience with us. Starting in the summer, we have rolled out an enhanced Net Promoter Score satisfaction survey for all our customers across the Bank.

Our Operations

A key priority for 2021 was to identify opportunities to simplify and streamline our operations and find cost efficiencies. We launched a review of our most important partnerships and agreements, resulting in savings and better management of vendor relations.

We completed an end-to-end review of mortgage processes, with a focus on reducing the number of touchpoints from initiation to funding to shorten approval times and we created a new Residential Real Estate Secured Lending team to allow for greater accountability and cross-functional collaboration.

We also made great progress in moving the Bank's Environmental, Social and Governance (ESG) strategy forward. To underscore the importance of ESG to our shareholders and stakeholders, I am proud to have taken on the role as the Bank's ESG Champion and the responsibility for delivering on Laurentian Bank's ESG strategy. Our CFO is leading up the Bank's commitment to the Task Force on Climate Related Financial Disclosures (TCFD) recommendations. We also added ESG targets to all our leaders' scorecards to ensure that we are all collectively making sustainable business decisions, supporting a low-carbon economy and investing in the well-being of our communities. We have launched a bank-wide climate risk assessment as well as an ESG materiality assessment, the results of which will be disclosed in our 2021 ESG Report.

Our People

Just as we actively supported our customers through the uncertainty and difficult times of the past year, we invested in our employees and introduced a number of health and wellness initiatives to encourage and support their physical and mental health.

We also doubled down on our commitment to building and fostering a workplace culture which celebrates equity, diversity and inclusion (ED&I) – ensuring that Laurentian Bank is a place where **everyone belongs**. We added ED&I targets to all of our leaders' scorecards so that we can measure and track our success in building up our diverse team. We launched our **Courageous Conversations Initiative** to create a safe space for employees to share, listen and learn about various aspects of diversity and inclusion. And three new **Employee Resource Groups** have been created for Black, LGBTQ2S+ and Women employees and allies. We also rolled out mandatory unconscious bias training for all employees and our Board members.

In terms of the **Future of Work**, last spring all our employees were invited to participate in a survey to share work habits, expectations and preferences. The participation rate was amazing, and we learned a great deal through that engagement. As a result of their feedback, we announced in August that the Bank would be adopting an employee-centric strategy and a hybrid work model, where working from home is our first approach for all tasks that can be performed remotely. As a result, we have reassessed our needs when it comes to physical corporate office space, and have made the decision to reduce our leased space by 50% in our corporate office locations in Toronto, Montreal and Burlington (our branch footprint across Quebec is not impacted).

This past fall, we surveyed our employees for the first time in 9 years to better understand what's working well and where we can improve. We were very pleased to see that our renewed focus on a performance-orientated culture is yielding results. Our employee engagement index increased by 17 points since 2012 to 74%. We are committed to building on this upward trend by continuing to engage and empower our employees.

Looking ahead – 2022 and beyond

Our success and momentum of the past year demonstrates that we are capable of great accomplishments and that we are on the right track. As we look towards 2022, our focus is now to build on our solid foundation and execute on the Bank's new three-year plan.

This plan will set Laurentian Bank apart from its competitors and focus on areas where the Bank can differentiate itself and best position itself for the future.

We have refined and sharpened our focus on the following 5 strategic pillars which will reposition the Bank for sustainable long-term profitable growth:

1. Make Size our Advantage – Leverage our size to create a competitive advantage in specialized markets and remain agile in assessing new opportunities.

2. Build One Winning Team – Work across boundaries, putting the Bank ahead of individual or team interests, in an environment where everyone belongs and thrives.

3. Think Customer First – Create a culture with a relentless focus on the customer.

4. Simplify – Streamline internal operations and enhance efficiencies.

5. Make the Better Choice – From the businesses we're in, to the people we hire, and the suppliers we use, we will live up to our values and integrate environmental, social and governance best practices.

Introducing Laurentian Bank's new Purpose and Core Values

We are extremely excited to reveal Laurentian Bank's new Purpose:

We believe we can change banking for the better. By seeing beyond numbers to bring hopes and dreams to life. Better begins when everyone feels like they belong and has the chance to thrive.

Our Purpose is our foundation – this serves as both our anchor as well as our North Star, guiding us towards the future.

We are also extremely proud to be launching our new **Core Values** which keep us strong, grounded, focused, steadfast and shape our individual actions and behaviours.

Our new Core Values grew organically and began during my leadership **"Listen and Learn"** tours with employees from across the organization. During these roundtable discussions, employees consistently shared sentiments and stories with us about the importance of our customers, the value of teamwork, the power of one's voice, the drive to succeed, and that "we **all** live here".

Our new Core Values are as follows: **We Place Our Customers First, We Work Together as One Team, We Act Courageously, We Are Results Driven, and We Believe Everyone Belongs**.

With our new Purpose and Core Values, our Laurentian Bank team is more aligned and focused than ever, and excited and ready for this next chapter.

Laurentian Bank – Seeing beyond numbers.

Thank you

In closing, I'm extremely proud of everything we accomplished in resetting and renewing the Bank in 2021 as **One Winning Team**. I look forward to 2022 – a year of execution – with optimism, excitement, and renewed confidence.

I am grateful for the unwavering support of the Board of Directors and our Chair, Michael Mueller. I want to thank our shareholders and customers for their confidence and trust in Laurentian Bank – we do not take this for granted and we will continue to work every day to be customer focused and results driven. And, finally, thank you to my colleagues; as I started by saying, I am honoured and humbled to be leading this strong, dedicated team of individuals who are courageous, diverse, compassionate and motivated.

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
Mr. Mueller does not sit on any of the Board's committees

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

Suzanne Gouin
Corporate Director
Has served on the Board of Directors since April 2021
Member of the Risk Management Committee

Rania Llewellyn
President and Chief Executive Officer, Laurentian Bank of Canada
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 Audit Committee and 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
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 Zelenczuk
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

Karine Abgrall-Teslyk
Executive Vice President,
Head of Personal Banking

Karine leads Laurentian's "One Team" approach to Personal Banking, which includes the Quebec branch network, Products, Marketing, Digital Banking and Advisors and Brokers channel.

Sébastien Bélair
Executive Vice President,
Chief Human Resources Officer

Sébastien is responsible for the Bank's strategy of engaging and empowering employees to work as One Team. His focus is on building high-performing teams in an inclusive workplace where employees feel both inspired and proud to work.

Yves Denommé
Executive Vice President, Operations

Yves is responsible for driving efficiencies across the organization, reducing complexities and improving and streamlining end-to-end processes to improve the customer experience.

Yvan Deschamps
Executive Vice President, Chief Financial Officer

Yvan is responsible for activities related to finance, accounting, treasury, taxation, investor relations, financial governance and corporate development.

Kelsey Gunderson
Executive Vice President, Capital Markets

Kelsey is responsible for all the Bank's capital markets activities, including fixed income and equities sales and trading, investment banking and capital markets, institutional and dealer services and our retail brokerage.

William Mason
Executive Vice President,
Chief Risk Officer

Liam is responsible for entreprise-wide risk management, credit management, legal affairs and compliance.

Éric Provost
Executive Vice President, Commercial Banking and President, Quebec Market

Éric is responsible for leading the Commercial Business Services activities in offering comprehensive financing solutions and expertise to businesses through real estate financing, commercial banking, as well as equipment and inventory financing.

Beel Yaqub
Executive Vice President,
Chief Information Technology Officer

Beel is responsible of overseeing Laurentian Bank's network infrastructure, cyber security, data privacy and management, application engineering, cloud enablement and IT vendor management.

ESG at a glance

Throughout our 175-year history, Laurentian Bank has been committed to making a positive impact on the lives of our customers and employees and investing in the communities in which we serve. In 2021, the Bank made good progress on our Environmental, Social and Governance (ESG) strategy and program, with ESG becoming increasingly integrated into the Bank's purpose, core values, decision-making process and actions.

Environmental

As a financial services company, we have the opportunity to make real and lasting positive impacts on the environment by reducing our own carbon footprint, investing in eco-friendly projects, providing financing to green initiatives, and engaging and building awareness among our stakeholders. In 2021, we continued to deliver on our **Task Force for Climate-related Financial Disclosures (TCFD) roadmap**, and developed and expanded on a number of strategies and programs for the benefit of the environment:

- Established a program management structure for **TCFD**, with the Bank's CFO serving as the internal task force lead.
- Launched a Bank-wide climate risk assessment to analyze our current state and develop a climate risk heatmap, which will be disclosed in our 2021 ESG Report.
- Increased our role in the **green bond market**:
  - Laurentian Bank Securities (LBS) participated in the financing of over 6.3 billion in green and sustainable bonds to help fund key eco-friendly projects.
  - LBS participated in the syndicate that funded the Province of Ontario's largest green bond, raising $2.75 billion.
- Expanded our **ESG product offering** to meet growing customer demands for environmentally responsible investments:
  - Launched three ESG-related Mackenzie Global Funds[1], distributed by LBC Financial Services Inc.
  - Launched a new ESG equity-linked GIC called the Canadian Sustainability ActionGIC.
- Announced a partnership with **Tree Canada** to plant 500 trees across the country and support the organization's reforestation efforts through its National Greening Program.
- We're reducing the carbon emissions footprint of our operations and supporting renewable energy in Canada by choosing green electricity for the Montreal and Toronto offices through our partnership with **Bullfrog Power**, Spark Power's sustainability division.

1 Mackenzie Global Sustainability Impact Balanced Fund, Mackenzie Global Greenchip Environmental All Cap Funds, and Mackenzie Global Women's Leadership Fund

Social

At Laurentian Bank we are constantly working on building and fostering an inclusive culture, delivering a rewarding employee experience, establishing long-lasting relationships with our customers, and enriching the communities where we operate. In 2021, an important culture shift began to take place across the Bank – anchored in our three strategic pillars – to cultivate a customer-first approach, drive an agile and innovative mindset, and engage and empower our employees to work as One Team:

Significantly enhanced our commitment to Equity, Diversity and Inclusion (ED&I):

- Added ED&I targets to all leaders' scorecards.
- Introduced a new **Courageous Conversations Initiative** to create a safe space for diverse team members to share stories and learn from each other.
- Launched three new Employee Resource Groups to support our team members and allies: **Laurentian Bank Black Employee Network, PRIDE Employee Resource Group** for the LGBTQ2S+ community and **StrongHer Women's Employee Resource Group**.
- Delivered on our **BlackNorth** pledges, including hiring well over 5% of our student workforce from the Black community, and making a $25,000 corporate donation to Groupe 3737 – a Montreal-based incubator for entrepreneurs from all culture backgrounds.
- Designed and rolled out **unconscious bias training across** entire bank, including live-facilitated sessions for leaders on inclusive leadership, and training for Board Members.
- Launched an enhanced Employment Equity Self-Identification Questionnaire to help improve our understanding of our workplace diversity.

Invested in the health and wellbeing of our employees:

- **Health and safety** of our employees remained a top priority during the ongoing COVID-19 pandemic – over 70% of our workforce continues to work from home, and strict protocols and regulations are followed in our branches and corporate offices to keep our frontline workers safe.
- Every employee was provided with up to four hours paid time off for each dose of the COVID-19 vaccine.
- Improved our employee benefits including an enhanced Employee and Family Assistance Program, a new Health and Wellness Spending Account and telemedicine services with access to 24/7 health care experts and services.
- Launched a **Wellness Challenge** to promote physical activity and healthy competition among colleagues – we donated $5,000 to Anorexie et boulimie Québec, a non-profit organization that guarantees free, immediate and specialized help to people with eating disorders and to their loved ones.
- To promote greater work/life balance, summer hours were put into place which gave employees four paid Friday afternoons off.

Engaged our employees:

- Launched an employee engagement survey for the first time in 9 years. The employee engagement index increased by 17 points since 2012 to 74%.
- Launched bank-wide employee survey on work habits, preferences and expectations to inform our Future of Work strategy – 81% participation rate.
- Based on employee input, announced that we would be implementing a **hybrid model** where work from home is our first approach for tasks that can be performed remotely.

Engaged our customers:

- To better serve our customers remotely, we introduced new tools like DocuSign to securely accept e-signatures – saving time and eliminating paper.
- We found new ways of connecting with our customers to gain a better understanding of their expectations and implement initiatives to improve their experience – including an enhanced **Net Promoter Score (NPS) engagement survey** to gain insights from our customers in many of our business lines.
- Completed the implementation of the **Seniors Code** principles and published our first report from the Senior's Champion.

Invested in our communities:

- As part of our year-long 175th anniversary celebrations, we launched **Laurentian Bank in the Community**, which empowered employees in our retail branches and business centres to decide which local not-for-profit or charitable organization to donate to – almost $70,000 was donated to 67 local organizations.

Governance

For 175 years, we have earned the trust of our stakeholders by building our business on strong principles and ethical values that guide our behaviour. Our approach to corporate governance is firmly rooted in best practice policies, processes and relationships to effectively manage risk and conduct business with transparency and integrity. In 2021, we have continued our commitment to good governance and further integrated ESG principles into Board and management committees and principles, including:

We formalized an internal governance model and program management structure to drive our ESG strategy and initiatives forward:

- Our CEO, Rania Llewellyn, took on the role of the Bank's **ESG Champion**. The ESG Steering Committee provides strategic guidance on priorities and investments and makes enterprise-wide decisions on our ESG program. Membership includes the Bank's executive management team.
- Our ESG Working Group enables information flow and identifies and recommends key strategic priorities. Membership includes 20 leaders from across the Bank, representing every business line and department.
- Our internal TCFD Taskforce, chaired by our CFO, makes key decisions related to the TCFD framework.
- ESG oversight was established in the mandates of the Board of Directors, Risk Management Committee of the Board, Human Resources and Corporate Governance Committee of the Board, and Audit Committee of the Board.

Oversight of the Bank continues to be represented equally by gender among our independent Board members.

- 5 women + 5 men

Our executive compensation packages have evolved and are aligned with the values of our shareholders.

- ED&I and ESG targets have been added to all leaders' scorecards.

We created a Gender Pay Equity Commitment Statement to guide our practices and ensure compensation processes are fair, regardless of gender.

The Bank adopted the Accessibility for Ontarians with Disabilities Act (AODA) employment standards and announced it would be applied across all of our Canadian operations.

- A training module covering accommodation of client and employee accessibility needs was developed and launched as part of our mandatory annual training program.

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS AT OCTOBER 31, 2021 AND 2020

This Management's Discussion and Analysis (MD&A) presents management's view of the financial condition of Laurentian Bank of Canada (the "Bank") as at October 31, 2021 and its operating results for the year then ended, compared with the corresponding year shown. This MD&A should be read in conjunction with the Audited Consolidated Financial Statements and related notes. This MD&A is dated December 9, 2021.

Additional information about Laurentian Bank of Canada, including the 2021 Annual Information Form, is available on the Bank's 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, 2021, 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.

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ABOUT LAURENTIAN BANK OF CANADA

At Laurentian Bank, we believe we can change banking for the better. By seeing beyond numbers.

Founded in Montréal in 1846, Laurentian Bank helps families, businesses and communities thrive. Today, we have 2,800 employees working together as one team, to provide a broad range of financial services and advice-based solutions for customers across Canada and the United States. We protect, manage and grow $45.1 billion in balance sheet assets and $31.0 billion in assets under administration.

We drive results by placing our customers first, making the better choice, acting courageously, and believing everyone belongs.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, Laurentian Bank of Canada (the "Bank") will make written or oral forward-looking statements within the meaning of applicable securities legislation, including such as those contained in this document (and in the documents incorporated by reference herein), and in other documents filed filings with Canadian regulatory authorities, in reports to shareholders, and in other written or oral communications. These forward-looking statements are made in accordance with, and are intended to be forward-looking statements under, current securities legislation in Canada. They include, but are not limited to, statements regarding the Bank's vision, strategic goals, business plans and strategies, priorities and financial performance objectives; the economic and market review and outlook for Canadian, United States (U.S.), European, and global economies; the regulatory environment in which the Bank operates; the risk environment, including, credit risk, liquidity, and funding risks; the anticipated ongoing and potential impact of the coronavirus (COVID-19) pandemic on the Bank's operations, earnings, financial results and financial performance, condition, objectives, and on the global economy and financial markets conditions; the statements under the headings "Outlook", "Impact of COVID-19 Pandemic" and "Risk Appetite and Risk Management Framework" contained in the Bank's 2021 Annual Report for the year ended October 31, 2021 (the "2021 Annual Report"), including the Management's Discussion and Analysis for the fiscal year ended October 31, 2021; 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", "intend", "plan", "goal", "aim", "target", and expressions of future or conditional verbs such as "may", "should", "could", "would", "will", "intend" or the negative of any 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, which give rise to the possibility that the Bank's predictions, forecasts, projections, expectations, or conclusions may prove to be inaccurate; that the Bank's assumptions may be incorrect (in whole or in part); and that the Bank's financial performance objectives, visions, and strategic goals may not be achieved. Forward-looking statements should not be read as guarantees of future performance or results, or indications of whether or not actual results will be achieved. Material economic assumptions underlying the forward-looking statements contained in this document are set out in the 2021 Annual Report under the heading "Outlook", which assumptions are incorporated by reference herein.

We caution readers against placing undue reliance on forward-looking statements, as a number of risk factors, many of which are beyond the Bank's control and the effects of which can be difficult to predict or measure, could influence, individually or collectively, the accuracy of the forward-looking statements and cause the Bank's actual future results to differ significantly from the targets, expectations, estimates or intentions expressed in the forward-looking statements. These risk factors include, but are not limited to, risks relating to: credit; market; liquidity and funding; insurance; operational; regulatory compliance (which could lead to us being subject to various legal and regulatory proceedings, the potential outcome of which could include regulatory restrictions, penalties, and fines); strategic; reputation; legal and regulatory environment; competitive and systemic risks; and other significant risks discussed in the risk-related portions of the Bank's 2021 Annual Report, such as those related to: the ongoing and potential impacts of the COVID-19 pandemic on the Bank, the Bank's business, financial condition and prospects; Canadian and global economic conditions; geopolitical issues; Canadian housing and household indebtedness; technology, information systems and cybersecurity; technological disruption, privacy, data and third-party related risks; competition and the Bank's ability to execute on its strategic objectives; the economic climate in the U.S. and Canada; digital disruption and innovation (including, emerging fintech competitors); Interbank offered rate (IBOR) transition; changes in currency and interest rates (including the possibility of negative interest rates); accounting policies, estimates and developments; legal and regulatory compliance and changes; changes in government fiscal, monetary and other policies; tax risk and transparency; modernization of Canadian payment systems; fraud and criminal activity; human capital; insurance; business continuity; business infrastructure; emergence of widespread health emergencies or public health crises; emergence of COVID-19 variants; development and use of 'vaccine passports'; environmental and social risk; and climate change; and the Bank's ability to manage, measure or model operational, regulatory, legal, strategic or reputational risks, all of which are described in more detail in the section titled "Risk Appetite and Risk Management Framework" beginning on page 50 of the 2021 Annual Report, including the Management's Discussion and Analysis for the fiscal year ended October 31, 2021 which information is incorporated by reference herein.

We further caution that the foregoing list of factors is not exhaustive. Additional risks, events, and uncertainties not currently known to us or that we currently deem to be immaterial may also have a material adverse effect on the Bank's financial position, financial performance, cash flows, business or reputation. When relying on the Bank's forward-looking statements to make decisions involving the Bank, investors and others should carefully consider the foregoing factors, uncertainties, and current and potential events.

The forward-looking information contained in this document presented for the purpose of assisting investors, financial analysts, and others in understanding the Bank's financial position and the results of the Bank's operations as at, and for the period ended on, the date presented, as well as the Bank's financial performance objectives, vision and strategic goals, and may not be appropriate for other purposes.

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 the Bank or on it behalf whether as a result of new information, future events or otherwise, except to the extent required by applicable securities regulations. Additional information relating to the Bank can be located on the SEDAR website at www.sedar.com. References in this document to "this Management's Discussion and Analysis" or "this MD&A" mean this Management's Discussion and Analysis dated as of December 9, 2021.

HIGHLIGHTS

TABLE 1
FINANCIAL HIGHLIGHTS

In thousands of dollars, except when noted	**2021**	2020	2019
Operating results			
Total revenue	**$ 1,002,457**	$ 971,009	$ 968,510
Net income	**$ 57,069**	$ 114,085	$ 172,710
Adjusted net income[1]	**$ 211,151**	$ 138,206	$ 193,227
Operating performance			
Diluted earnings per share	**$ 1.03**	$ 2.37	$ 3.77
Adjusted diluted earnings per share[2]	**$ 4.57**	$ 2.93	$ 4.26
Return on common shareholders' equity[2]	**1.9 %**	4.4 %	7.0 %
Adjusted return on common shareholders' equity[2]	**8.3 %**	5.5 %	7.9 %
Net interest margin[3]	**1.85 %**	1.84 %	1.81 %
Efficiency ratio[3]	**87.8 %**	75.6 %	75.0 %
Adjusted efficiency ratio[2]	**68.2 %**	72.3 %	72.3 %
Operating leverage[3]	**(16.7)%**	(0.7)%	(8.5)%
Adjusted operating leverage[2]	**5.8 %**	— %	(7.8)%
Financial position ($ millions)			
Loans and acceptances	**$ 33,645**	$ 33,193	$ 33,667
Total assets	**$ 45,077**	$ 44,168	$ 44,353
Deposits	**$ 22,988**	$ 23,920	$ 25,653
Basel III regulatory capital ratios			
Common Equity Tier 1 (CET1) capital ratio[4]	**10.2 %**	9.6 %	9.0 %
CET1 risk-weighted assets ($ millions)[4]	**$ 20,007**	$ 19,669	$ 20,407
Credit quality			
Gross impaired loans as a % of loans and acceptances[3]	**0.75 %**	0.82 %	0.52 %
Net impaired loans as a % of loans and acceptances[3]	**0.49 %**	0.59 %	0.40 %
Provision for credit losses as a % of average loans and acceptances[3]	**0.15 %**	0.35 %	0.13 %
Common share information			
Closing share price[5]	**$ 41.67**	$ 26.21	$ 45.30
Price / earnings ratio[3]	**40.5 x**	11.1 x	12.0 x
Book value per share[2]	**$ 53.99**	$ 53.74	$ 54.02
Dividends declared per share	**$ 1.60**	$ 2.14	$ 2.62
Dividend yield[3]	**3.8 %**	8.2 %	5.8 %
Dividend payout ratio[3]	**154.9 %**	90.2 %	69.3 %
Adjusted dividend payout ratio[2]	**34.9 %**	72.9 %	61.4 %

(1) This is a non-GAAP financial measure. Refer to the Non-GAAP Financial and Other Measures section on page 28 for more information.
(2) This is a non-GAAP ratio. Refer to the Non-GAAP Financial and Other Measures section on page 28 for more information.
(3) This is a supplementary financial measure. Refer to the Non-GAAP Financial and Other Measures section on page 28 for more information.
(4) In accordance with OSFI's "Capital Adequacy Requirements" guideline. Refer to the Capital Management section on page 46 for more information.
(5) Toronto Stock Exchange (TSX) closing market price.

NON-GAAP FINANCIAL AND OTHER MEASURES

NON-GAAP FINANCIAL MEASURES

Management uses financial measures based on generally accepted accounting principles (GAAP) and non-GAAP financial measures to assess the Bank's performance. Non-GAAP financial measures presented throughout this document are referred to as "adjusted" measures and exclude amounts designated as adjusting items. Non-GAAP financial measures are not standardized financial measures under the financial reporting framework used to prepare the financial statements of the Bank and might not be comparable to similar financial measures disclosed by other issuers. Adjusting items have been designated as such as management does not believe they are indicative of underlying business performance. Non-GAAP financial 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.

Tables 2 and 3 show a reconciliation of the non-GAAP financial measures to their most directly comparable financial measure that is disclosed in the primary financial statements of the Bank.

TABLE 2

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES — CONSOLIDATED STATEMENT OF INCOME

In thousands of dollars, except per share amounts		**2021**		2020		2019
Non-interest expenses	**$**	**880,362**	$	733,787	$	726,493
Adjusting items, before income taxes						
Strategic review-related charges[1]		**96,067**		—		—
Personal Banking segment impairment charges[2]		**93,392**		—		—
Restructuring charges[3]		**2,385**		18,289		12,679
Net gain on the settlement of pension plans resulting from annuity purchases[4]		**(7,064)**		—		—
Amortization of acquisition-related intangible assets[5]		**12,042**		13,641		13,711
		196,822		31,930		26,390
Adjusted non-interest expenses	**$**	**683,540**	$	701,857	$	700,103
Income before income taxes	**$**	**72,595**	$	120,284	$	196,165
Adjusting items, before income taxes						
Adjusting items impacting non-interest expenses (detailed above)		**196,822**		31,930		26,390
Amortization of net premium on purchased financial instruments[6]		**—**		638		1,452
		196,822		32,568		27,842
Adjusted income before income taxes	**$**	**269,417**	$	152,852	$	224,007
Reported net income	**$**	**57,069**	$	114,085	$	172,710
Adjusting items, net of income taxes						
Strategic review-related charges[1]		**70,638**		—		—
Personal Banking segment impairment charges[2]		**77,884**		—		—
Restructuring charges[3]		**1,753**		13,443		9,306
Net gain on the settlement of pension plans resulting from annuity purchases[4]		**(5,194)**		—		—
Amortization of acquisition-related intangible assets[5]		**9,001**		10,206		10,144
Amortization of net premium on purchased financial instruments[6]		**—**		472		1,067
		154,082		24,121		20,517
Adjusted net income	**$**	**211,151**	$	138,206	$	193,227
Net income available to common shareholders	**$**	**44,804**	$	101,619	$	159,744
Adjusting items, net of income taxes (detailed above)		**154,082**		24,121		20,517
Adjusted net income available to common shareholders	**$**	**198,886**	$	125,740	$	180,261

(1) The strategic review-related charges relate to the renewed strategic direction for the Bank, as detailed in the Business highlights section on page 30 of this MD&A. Strategic review-related charges are included in the Impairment and restructuring charges line-item and include impairment charges, severance charges and charges related to lease and other contracts.

(2) The Personal Banking segment impairment charges relate to the impairment of the Personal Banking segment as part of the annual goodwill impairment test, as detailed in the Business highlights section on page 30 of this MD&A. Impairment charges are included in the Impairment and restructuring charges line-item.

(3) Restructuring charges mainly consisted of charges associated with the optimization of the branch network and the related streamlining of certain back-office and corporate functions, as well as the resolution of the union grievances and complaints in 2021. Restructuring charges are included in the Impairment and restructuring charges line-item and include severance charges, salaries, legal fees, communication expenses, professional fees and charges related to lease contracts.

(4) The net gain on the settlement of pension plans resulting from annuity purchases is related to the purchase of group annuity contracts de-risking the Bank's pension plans (or buy-out) and is included in the Non-interest expenses line item. Refer to the Business Highlights section on page 30 of this MD&A for more information.

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

(6) Amortization of net premium on purchased financial instruments resulted 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.

TABLE 3

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES — CONSOLIDATED BALANCE SHEET

In thousands of dollars, except per share amounts	2021	2020	2019
Shareholders' equity	**$ 2,640,870**	$ 2,611,241	$ 2,567,661
Less:			
Preferred shares	**(122,071)**	(244,038)	(244,038)
Limited recourse capital notes	**(123,612)**	—	—
Cash flow hedges reserve[1]	**(42,095)**	(43,593)	(21,049)
Common shareholders' equity	**$ 2,353,092**	$ 2,323,610	$ 2,302,574
Impact of averaging month-end balances[2]	**45,225**	(28,215)	(31,957)
Average common shareholders' equity	**$ 2,398,317**	$ 2,295,395	$ 2,270,617

(1) The cash flow hedges reserve is presented in the Accumulated other comprehensive income line item.
(2) Based on the month-end balances for the period.

Tables 12 and 13 on page 41 of this MD&A also present a reconciliation of non-gaap financial measures for the quarterly results for fiscal 2021 and 2020.

NON-GAAP RATIOS

Non-GAAP ratios are not standardized financial measures under the financial reporting framework used to prepare the financial statements of the Bank to which the non-GAAP ratios relate and might not be comparable to similar financial measures disclosed by other issuers. Ratios are considered non-GAAP ratios if adjusted measures are used as components, refer to the Non-GAAP financial measure section above. Non-GAAP ratios 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. The following ratios are non-GAAP ratios.

Adjusted diluted earnings per share is calculated by dividing adjusted net income available to common shareholders by the diluted weigthed-average number of common shares outstanding. The following table presents a reconciliation of adjusted diluted earnings per share to diluted earnings per share, which is disclosed in the primary financial statements of the Bank.

TABLE 4

IMPACT OF ADJUSTING ITEMS ON DILUTED EARNINGS PER SHARE

In thousands of dollars, except per share amounts	2021	2020	2019
Diluted earnings per share	**$ 1.03**	$ 2.37	$ 3.77
Adjusting items, net of income taxes, on a per share basis	**3.54**	0.56	0.49
Adjusted diluted earnings per share[2]	**$ 4.57**	$ 2.93	$ 4.26

(1) Refer to Table 2 on page 28 for the detailed description of adjusting items.
(2) The impact of adjusting items on a per share basis may not add due to rounding.

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.

Adjusted return on common shareholders' equity (Adjusted ROE) is a profitability measure calculated as the adjusted net income available to common shareholders as a percentage of average common shareholders' equity.

Adjusted efficiency ratio is a measure of productivity and cost control and is defined as adjusted non-interest expenses as a percentage of total revenue.

Adjusted operating leverage is a measure of efficiency and is the difference between total revenue and adjusted non-interest expenses growth rates.

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

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.

SUPPLEMENTARY FINANCIAL MEASURES

Management also uses supplementary financial measures to analyze the Bank's results and in assessing underlying business performance and related trends. Please refer to the Glossary on page 84 of this MD&A for more information about the composition of supplementary financial measures disclosed in this document.

BUSINESS HIGHLIGHTS

STRATEGIC REVIEW

On November 23, 2021, the Bank announced that it will unveil on December 10, 2021 its new strategic plan, under the leadership of its new President & CEO and management team. As a result of its strategic review, the Bank recorded charges of $96.1 million ($70.6 million after income taxes) in 2021, as further detailed below.

Future of work

The pandemic has shifted the way many people work. As a result, over the past few months, the Bank has been working to refine its future of work plans, considering both customer and employee expectations. The Bank has decided to pursue and will be adopting a hybrid model, where working from home will be the first approach for all tasks that can be performed remotely. This is in line with the Bank's new strategic plan to be a more customer and people-focused Bank and is a key differentiator to attracting talent. Given the shift to work-from-home, the Bank recorded in 2021 charges of $48.8 million related to a 50 percent planned reduction in leased corporate office premises in Toronto, Burlington and Montreal and taking into account anticipated sublease agreements. This does not impact the Bank's branch footprint.

Organizational changes

In pursuing a performance-oriented culture while simplifying the organizational structure, the Bank recorded severance charges of $9.4 million in 2021 related to 64 positions across all levels, within different entities, and are split between roles in Ontario (60%) and Quebec (40%).

Technology

In 2016, the Bank began a multi-year program to replace its core-banking system over two phases. While Phase 1 of the program has been completed and deployed, the Bank reassessed, as part of its strategic review, the second phase of the project, which mostly included accounts and products from the retail branch network. Given the rapid evolution and advancement of technology, the Bank is looking to leverage new capabilities through partnerships to deliver products and services in a faster, more efficient way to market, while improving the overall customer experience. As a result, the Bank made the decision to cease Phase 2 of the program and recorded in 2021 a charge related to the impairment of the core-banking system intangible asset of $31.5 million and a charge related to other contracts of $6.3 million.

PERSONAL BANKING SEGMENT IMPAIRMENT

Annually, the Bank conducts a goodwill impairment test. As a result of this year's test, the Bank recorded an impairment charge on the value of its Personal Banking segment. This impairment reflects the recent decline in assets and deposit volumes, which, combined with the Bank's limited digital capabilities to support the ongoing changing needs of customers during the pandemic, made it challenging to retain existing customers and acquire net new ones. In addition, the Bank has also previously commented on the fact that it currently has two digital platforms, resulting in an inconsistent customer experience. In order to simplify the structure of the Bank and improve the customer experience the Bank will consolidate its two digital platforms into one. As a result, the Bank recorded an impairment charge of $93.4 million in 2021 as follows: 1) goodwill for an amount of $34.9 million, 2) software and intangible assets for $52.7 million and, 3) premises and equipment for $5.8 million.

Refer to the Critical accounting and estimates section on page 79 of this MD&A for additional information.

OTHER BUSINESS HIGHLIGHTS

Residential mortgage loans end to end process review

As part of its plan to improve the customer experience and to renew growth in residential mortgage loans, the Bank completed an end to end review for both the broker and branch channel mortgage processes and identified improvements and opportunities for harmonization and simplification. This led to the launch of several pilot projects to improve broker business response times and service levels, as well as to eliminate overlapping manual processes.

In the fourth quarter of 2021, to drive greater accountability and cross-functional collaboration, the mortgage underwriting team was integrated into the recently created Residential Real Estate Secured Lending business unit. Throughout the year, efforts related to retention continued, including deployment of predictive analytics and the launch of a pilot retention team, as well as the creation of a team dedicated to deepening customer relationships. New technology tools were also adopted to improve the customer experience, including "DocuSign" for ease, convenience, and collection of customer approvals. While improving the performance of the mortgage business is expected to be a multi-year journey, it should gradually yield benefits along the way.

Digital enablement

As part of its plan to drive customer acquisition, deepen customer relationships and enhance the customer experience, the Bank is making good progress on its digital strategy. The Bank has been focusing on simplifying its offering and closing foundational capability gaps. To that end, the Bank has launched the first phase of its Mobile Banking App on both iOS and Android. The Mobile App will allow

customers to do their most common banking transactions on the go. Using an agile approach, the Bank will continue to update and enhance its app and customers will see continuous improvements through ongoing releases.

Advanced internal ratings-based approach to credit risk

As part of the objective to improve its foundation, the Bank is pursuing the adoption of the AIRB approach to credit risk, subject to regulatory approval. The Bank remains committed to complete the project given the anticipated positive impact on required capital levels, as well as on the overall capital and credit management processes. In the current context of its strategic review and priorities, the Bank is not expecting to complete the process before 2025.

Purchase of group annuity contracts de-risking the Bank's pension plans

On June 10, 2021, in an effort to reduce its defined benefit pension plan obligation and decrease future pension volatility and risks, the Bank purchased $346.2 million of group annuity contracts from a Canadian insurer and transferred $353.4 million in obligations, resulting in a $7.1 million net settlement gain ($5.2 million net of income taxes). Under the agreement, the Canadian insurer will issue annuities covering the responsibility for pension benefits owed to approximately 1,900 Laurentian Bank of Canada pensioners. The insurer began administering all benefits for these members in October 2021. Following the transaction, benefits for plan participants are protected under Assuris, the life insurance compensation association designated under the Insurance Companies Act of Canada. For accounting purposes, this buy-out transaction mainly eliminates further legal or constructive obligation for benefits and a settlement occurred.

Revocation of union certification

On April 21, 2021, the Bank announced that the Canada Industrial Relations Board (CIRB) had revoked the union certification covering the unionized employees of the Bank, following a vote by the majority of its affected employees in favour of the revocation and withdrawal of the complaints filed by the union. Approximately 20% of the Bank's employees were represented by the union certification prior to its revocation.

Quebec branch network optimization

In 2020, the Bank completed the conversion of its traditional branch network to a 100% Advice model. In 2021, five more branches were merged. Going forward, the Bank will continuously review its branch network adapting to its customer-first culture and to the anticipated rollout of its renewed digital strategy.

OUTLOOK

ECONOMIC OUTLOOK

The successful and ongoing COVID-19 vaccination rollout in developed countries paved the way for the robust economic recovery this past Fall. However, the uneven distribution of vaccines in emerging countries is hampering recovery in those markets. Canada's leading vaccination rate allowed further reopening of the economy over the past few months, but uncertainty remains regarding the emergence and progression of new variants. Strong consumer and business spending intentions, combined with the extension of targeted federal government support until the Spring of 2022, underpin a favourable Canadian economic outlook. Canadian business investment intentions in machinery and equipment are at a record high. An increasing number of companies are experiencing labour shortages and global supply disruptions, which may dampen future sales. The high demand for Canadian commodities and a strong corporate earnings outlook resulted in the S&P/TSX Composite Index reaching an all-time high.

Canadian employment in November surpassed by 1 percentage point the pre-pandemic level. Wage growth has been accelerating as job postings are at a record high, and finding workers with the right skill set remains a challenge. The unemployment rate stood at 6.0% in November, which compares to 9.4% at the peak of the second COVID-19 wave last Winter, and the pre-pandemic level of 5.6%.

Households, particularly homeowners, are benefiting from a positive wealth effect as a result of strong, albeit slightly slowing, housing price appreciation and record high corporate equity values. Canadian housing market conditions remain tight as low mortgage rates, coupled with a preference for teleworking and the ability to safely socialize, are keeping demand high and supply low. Housing starts also remained strong in the Fall after reaching an all-time high in the first half of 2021. Underpinned by high vaccination rates and a strong job market, households intend to spend a portion of excess savings in the coming quarters.

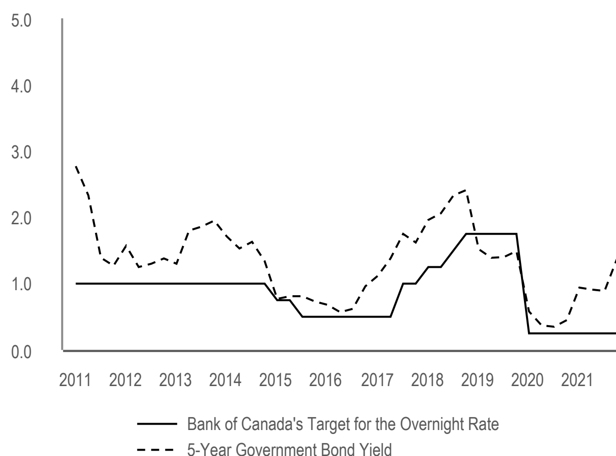
In the U.S., the delta variant had a slight adverse impact on real Gross Domestic Product (GDP) in the third quarter of 2021, as consumer spending in the services sector slowed. The Federal Reserve is beginning to reduce its asset purchases, but remains far from any indication of a policy rate liftoff.

The Bank of Canada (BoC) has been reducing the pace of asset purchases due to improving economic conditions. Canadian government bond yields have been rising since September and the market has been pricing in several policy rate hikes. In mid-October the BoC signaled its intention to begin the policy rate liftoff in the second or third quarter of 2022.

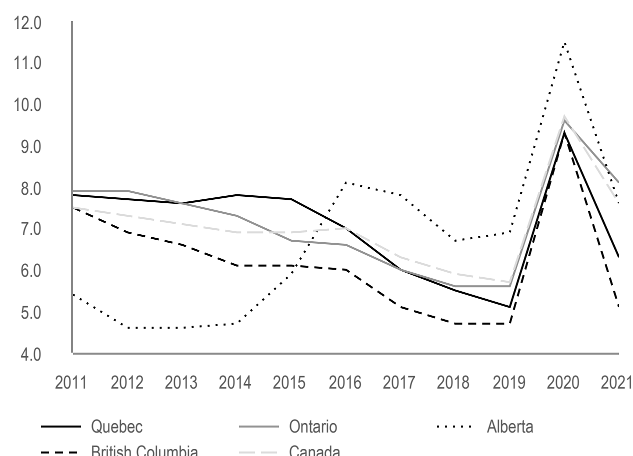
The Canadian Consumer Price Index (CPI) inflation almost reached a two-decade high of 4.4% in September, mainly driven by global supply disruptions and tight conditions in global energy markets. Spending of excess savings and logistics improvements will also determine the level and duration of above-trend inflation.

The Canadian dollar remains volatile. Most of the strength seen in the Canadian dollar over the summer was driven by the surge in energy and other commodity prices. Furthermore, the BoC's more aggressive stance relative to the U.S. Federal Reserve is providing some support for the Canadian dollar which is trading at about US$0.80.

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



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



IMPACT OF COVID-19 PANDEMIC

In response to the COVID-19 pandemic, the Bank has prioritized the health and safety of its customers and employees. It enhanced online and telebanking services to better serve customers remotely, and implemented and follows all public health guidelines in its branches and offices. The Bank also adopted measures to provide credit relief for its customers facing financial hardships as a result of the pandemic. The Bank continues to work with personal and commercial customers to manage the impacts of this unprecedented crisis and has supported them by offering unique solutions depending on their situations.

Operating results

The Bank is continuously adapting to the new economic environment resulting from the COVID-19 pandemic. Changes to consumer spending behaviour continues to impact personal loan volumes and retail transaction-driven fees. In addition, targeted loan portfolios were impacted by supply-chain disruptions caused by the COVID-19 pandemic. This has weighed on loan volumes and net interest income in 2021, despite a strong contribution from commercial real estate activities. In 2021, improvements in forward-looking assumptions compared with 2020 resulted in a lower level of provision for credit losses. The continued uncertainty resulting from the ongoing impact of the pandemic may cause future volatility in expected credit losses until we see a more normalized operating environment globally.

While the Bank is taking actions to mitigate the impact of COVID-19 on its daily operations and financial results, the pandemic is expected to continue to impact operating results in the near term. Numerous unpredictable and evolving factors have to be considered, such as the duration and spread of the pandemic, including the rise of variants; its impact on customers, employees and third-party providers; the response of government authorities to the crisis and global social and economic impacts. As such, it remains challenging to forecast 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 full extent of the impact of the COVID-19 pandemic on the Canadian and U.S. economies is still uncertain. Therefore, it remains difficult to predict whether the COVID-19 pandemic may result in significant write-offs in the future, or if the Bank will need to recognize additional increases or release significant portions of its allowances for credit losses in subsequent periods.

The COVID-19 pandemic may also increase costs as the Bank prioritizes health and safety measures and complies with applicable requirements, and may cause the Bank to reduce, delay or alter initiatives that may otherwise have increased its long-term value.

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 the "Risk Appetite and Risk Management Framework" section on page 50 of this MD&A. Refer, also, to page 73 under the "Other risks that may affect future results" section for further details relating to impacts of the COVID-19 pandemic.

Capital and liquidity

The Bank is well positioned to manage capital and liquidity risks. The Common Equity Tier 1 ratio stood at 10.2% as at October 31, 2021, in excess of the minimum regulatory requirement. As the Bank continues to support its customers, and in accordance with regulatory developments and policy responses, the Bank expects its regulatory capital ratio to remain above regulatory and target management levels.

The liquidity coverage ratio remains above industry levels. The Bank's liquidity position was healthy at the onset of the pandemic and remains so today. The Bank will continue to prudently monitor capital and liquidity levels.

MEDIUM-TERM PERFORMANCE TARGETS

As economies reopen in North America and as the renewed management team now has a clearer view of the strategic direction for Laurentian Bank, medium-term financial targets reflecting the global corporate view are being reintroduced. Table 5 shows these new medium-term performance targets and the Bank's performance for 2021.

TABLE 5
MEDIUM-TERM PERFORMANCE TARGETS

Per share and percentage amounts	Medium-term Targets	2021
Adjusted diluted earnings per share growth[1]	7% to 10%	$ **4.57**
Adjusted return on common shareholders' equity[1]	>10%	**8.3 %**
Adjusted efficiency ratio[1]	<65%	**68.2 %**
Adjusted operating leverage[1]	Positive	**5.8 %**

(1) The financial objectives are non-GAAP ratios based on non-GAAP financial measures. Refer to the Non-GAAP Financial and Other Measures section on page 28 for more information.

Key assumptions supporting the Bank's medium-term objectives

The following assumptions are the most significant items considered in setting the Bank's strategic and financial objectives. The Bank's objectives do not constitute guidance and are based on certain key planning assumptions. Other factors such as those detailed in the Caution Regarding Forward-Looking Statements section on page 26 and in the "Risk Appetite and Risk Management Framework" section of this document could also cause future results to differ materially from these objectives.

Considering the economic environment described above, management believes the following factors will underpin its financial outlook for the medium term:

- Organic growth to continue in commercial loans;
- Growth to resume in personal and residential mortgage loans;
- Relatively stable product margins in the Bank's main markets and higher overall net interest margin due to improved portfolio mix;
- Continued progress on optimization of the Bank's operations;
- Loan loss provisions to revert to normalized levels, at the lower end of the industry level; and
- Expenses to be tightly controlled and include cost reduction initiatives.

ANALYSIS OF CONSOLIDATED RESULTS

OVERVIEW OF FISCAL 2021

Laurentian Bank of Canada reported net income of $57.1 million and diluted earnings per share of $1.03 for the year ended October 31, 2021, compared with $114.1 million and $2.37 for the year ended October 31, 2020. Return on common shareholders' equity was 1.9% for the year ended October 31, 2021, compared with 4.4% in 2020. Of note, reported results for 2021 include impairment and restructuring charges of $191.8 million ($150.3 million after income taxes), or $3.45 per share, mainly related to the strategic review of the Bank's operations completed in the fourth quarter of 2021 and to the impairment of the Personal Banking segment. Refer to the Non-GAAP Financial and Other Measures on page 28 and the Business Highlights section on page 30 for further details. Adjusted net income was $211.2 million and adjusted diluted earnings per share were $4.57 for the year ended October 31, 2021, compared with $138.2 million and $2.93 diluted per share in 2020. The improvement was mainly due to an improvement in macro economic conditions, as well as revenue growth and a reduction in adjusted non-interest expenses, as detailed below. Adjusted return on common shareholders' equity was 8.3% for the year ended October 31, 2021, compared with 5.5% in 2020.

TABLE 6
CONDENSED CONSOLIDATED RESULTS

In thousands of dollars, except percentage amounts		2021		2020		2019	Variance 2021/ 2020
Net interest income	$	**692,341**	$	682,424	$	686,411	1 %
Other income		**310,116**		288,585		282,099	7 %
Total revenue		**1,002,457**		971,009		968,510	3 %
Amortization of net premium on purchased financial instruments		**—**		638		1,452	(100)%
Provision for credit losses		**49,500**		116,300		44,400	(57)%
Non-interest expenses		**880,362**		733,787		726,493	20 %
Income before income taxes		**72,595**		120,284		196,165	(40)%
Income taxes		**15,526**		6,199		23,455	150 %
Net income		**57,069**		114,085		172,710	(50)%
Preferred share dividends and limited recourse capital note interest		**12,265**		12,466		12,966	(2)%
Net income available to common shareholders	$	**44,804**	$	101,619	$	159,744	(56)%
Non-GAAP financial measures							
Adjusted non-interest expenses[1]	$	**683,540**	$	701,857	$	700,103	(3)%
Adjusted income before income taxes[1]	$	**269,417**	$	152,852	$	224,007	76 %
Adjusted net income[1]	$	**211,151**	$	138,206	$	193,227	53 %
Adjusted net income available to common shareholders[1]	$	**198,886**	$	125,740	$	180,261	58 %

(1) This is a non-GAAP financial measure. Refer to the Non-GAAP Financial and Other Measures section on page 28 for more information.

TOTAL REVENUE

Total revenue was $1,002.5 million for the year ended October 31, 2021, an increase of 3% compared with $971.0 million for the year ended October 31, 2020. Net interest income contributed to 69% of total revenue in 2021, and other income contributed to 31% (70% and 30%) respectively in 2020.

NET INTEREST INCOME

Net interest income increased by $9.9 million to $692.3 million for the year ended October 31, 2021, from $682.4 million for the year ended October 31, 2020. The increase was mainly due to improved funding costs, as the utilization of secured funding increased year-over-year, partly offset by lower average loan volumes.

Over the past few years years, the Bank has been repositioning its loan portfolio to increase the proportion of higher yielding commercial loans, with an objective of improving net interest income generation and optimizing capital allocation. In 2021, the decrease in average inventory financing volumes, explained by the strong consumer demand for recreational products combined with supply-chain disruptions, negatively impacted interest income. This trend is expected to prevail in 2022, until a normalization in consumer demand for recreational products. Further details on the evolution of the loan portfolio are provided in the "Loan portfolio mix" section on page 55 of this MD&A.

As further detailed in Table 7, net interest margin as a percentage of average earning assets stood at 1.85% for the year ended October 31, 2021 and increased by 1 basis point when compared with the year ended October 31, 2020, mainly as a result of the reduction in funding costs, as noted above. Table 8 provides a summary of changes in net interest income.

TABLE 7

NET INTEREST INCOME

In thousands of dollars, except percentage amounts			2021			2020
	Average volume	Interest	Average rate	Average volume	Interest	Average rate
Assets						
Cash resources and securities	$ 4,169,858	$ 47,482	1.14 %	$ 3,615,864	$ 62,092	1.72 %
Securities purchased under reverse repurchase agreements	209,389	288	0.14	212,009	1,777	0.84
Loans						
Personal	3,852,221	164,606	4.27	4,326,186	206,052	4.76
Residential mortgage	15,940,973	430,743	2.70	15,984,244	472,898	2.96
Commercial and other	13,201,554	522,524	3.96	12,880,577	608,123	4.72
Total loans	32,994,748	1,117,873	3.39	33,191,007	1,287,073	3.88
Derivatives and other		87,672	—		71,311	—
Total interest earning assets[1]	37,373,995	1,253,315	3.35	37,018,880	1,422,253	3.84
Non-interest earning assets and assets related to trading activities	7,832,569	—	—	7,958,930	—	—
Total assets	$ 45,206,564	$ 1,253,315	2.77 %	$ 44,977,810	$ 1,422,253	3.16 %
Liabilities and shareholders' equity						
Demand and notice deposits	$ 7,389,474	$ 35,861	0.49 %	$ 6,625,724	$ 51,135	0.77 %
Term deposits	16,127,709	328,430	2.04	18,535,989	480,927	2.59
Debt related to securitization activities	10,736,340	175,964	1.64	9,164,817	179,930	1.96
Subordinated debt	349,598	15,208	4.35	349,258	15,222	4.36
Other		5,511	—		12,615	—
Total interest-bearing liabilities[1]	34,603,121	560,974	1.62	34,675,788	739,829	2.13
Acceptances	10,112	—	—	216,689	—	—
Non-interest-bearing liabilities and liabilities related to trading activities	7,892,111	—	—	7,508,145	—	—
Total liabilities	42,505,344	560,974	1.32	42,400,622	739,829	1.74
Shareholders' equity	2,701,220		—	2,577,188		—
Total liabilities and shareholders' equity	$ 45,206,564	$ 560,974	1.24 %	$ 44,977,810	$ 739,829	1.64 %
Net interest income and margin[2] (on average earning assets)		$ 692,341	1.85 %		$ 682,424	1.84 %

(1) Interest earning assets and interest-bearing liabilities are supplementary financial measures. Refer to the Non-GAAP Financial and Other Measures section on page 28 for more information.

(2) Net interest margin is a supplementary financial measure. Refer to the Non-GAAP Financial and Other Measures section on page 28 for more information.

TABLE 8

CHANGES IN NET INTEREST INCOME

In thousands of dollars			2021
	Increase (decrease) due to change in		
	Average volume	Average rate	Net change
Interest earning assets	$ 13,643	$ (182,581)	$ (168,938)
Interest-bearing liabilities	1,550	177,305	178,855
Net interest income	$ 15,193	$ (5,276)	$ 9,917

OTHER INCOME

Other income increased by $21.5 million or 7%, amounting to $310.1 million for the year ended October 31, 2021, compared with $288.6 million for the year ended October 31, 2020.

Lending fees increased by $6.9 million or 11% to $69.4 million for 2021, compared with $62.6 million for 2020, mainly driven by increases from real estate lending activity.

Fees and securities brokerage commissions increased by $16.2 million or 34% to $64.2 million for 2021, compared with $48.0 million for 2020. The increase mostly stemmed from higher investment-banking fees in Fixed Income and Equities.

Commissions from sales of mutual funds increased by $6.1 million or 14% to $49.1 million for 2021, compared with $43.0 million for 2020, as a result of higher market values in 2021 and an increase in net sales of mutual funds.

Service charges on deposits and payments decreased by $3.0 million or 9% to $30.7 million for 2021, compared with $33.7 million for 2020. The decrease resulted in part from the ongoing changes to retail customers banking behaviour, as they gradually adopt digitally-based services. The COVID-19 pandemic has accelerated this trend and has further contributed to the reduction of in-branch and ATM transactions over the past year.

Card service revenues decreased by $1.1 million or 4%, as a result of lower consumer spending partly owing to the current economic conditions.

*Income from financial instr*uments, which includes revenues from treasury operations and trading-related income, decreased by $4.1 million or 12% to $29.6 million for 2021, compared with $33.7 million for 2020. The decrease was mainly driven by lower levels of market activity compared to the 2020 record-high, in particular for fixed income trading.

Fees on investment accounts decreased by $0.8 million or 5% to $15.5 million for 2021, compared with $16.4 million for 2020, 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 $0.9 million or 8% to $10.2 million for 2021, compared with $11.1 million for 2020, mainly as a result of lower insurance premiums, partly offset by lower customer claims. Additional information on the Bank's insurance revenues is disclosed in Note 27 to the Consolidated Financial Statements.

Other, which mainly includes revenues from leasing activities, increased by $2.4 million or 20% to $14.0 million for 2021, compared with $11.6 million for 2020.

TABLE 9
OTHER INCOME

In thousands of dollars, except percentage amounts	**2021**	2020	2019	Variance 2021/2020
Lending fees	**$ 69,446**	$ 62,595	$ 61,459	11 %
Fees and securities brokerage commissions	**64,226**	48,030	43,892	34
Commissions from sales of mutual funds	**49,088**	42,985	42,892	14
Service charges	**30,746**	33,733	42,033	(9)
Income from financial instruments	**29,590**	33,728	12,460	(12)
Card service revenues	**27,342**	28,438	33,238	(4)
Fees on investment accounts	**15,509**	16,350	18,231	(5)
Insurance income, net	**10,219**	11,148	13,941	(8)
Other	**13,950**	11,578	13,953	20
Other income	**$ 310,116**	$ 288,585	$ 282,099	7 %

PROVISION FOR CREDIT LOSSES

The provision for credit losses decreased by $66.8 million to $49.5 million for the year ended October 31, 2021 compared with $116.3 million for the year ended October 31, 2020, mainly as the prior year reflected higher provisions on performing loans due to the impact of the COVID-19 pandemic. Lower provisions on impaired loans in 2021 also contributed to the decrease.

Of note, the Bank reviewed its strategy in relation to its investment loan portfolio and reassessed the product design and credit standards in the fourth quarter of 2021. Consequently, remediation will be accelerated for a portion of the investment loan portfolio, which led to an increase of $19.3 million in allowances and provisions for credit losses in 2021 related to this portfolio.

Refer to the "Credit risk management" section on pages 54 to 61 of this MD&A and to Note 6 to the Consolidated Financial Statements for more information on provision for credit losses and allowances for credit losses.

NON-INTEREST EXPENSES

Non-interest expenses increased by $146.6 million or 20% to $880.4 million for the year ended October 31, 2021, compared with $733.8 million for the year ended October 31, 2020. Of note, non-interest expenses for 2021 include impairment and restructuring charges of $191.8 million mainly related to the strategic review of the Bank's operations completed in the fourth quarter of 2021 and to the impairment of the Personal Banking segment. Refer to the Non-GAAP Financial and Other Measures on page 28 and the Business Highlights section on page 30 for further details. Adjusted non-interest expenses decreased by $18.3 million to $683.5 million for the year ended October 31, 2021, compared with $701.9 million for the year ended October 31, 2020. Adjusted non-interest expenses exclude adjusting items, as described in the Non-GAAP Financial and Other Measures section on page 28.

Salaries and employee benefits were mainly unchanged and amounted to $370.4 million for the year ended October 31, 2021, compared with the year ended October 31, 2020. Salaries and employee benefits for 2021 include a $7.1 million net gain on the settlement of pension plans resulting from annuity purchases, as described in the Business Highlights section on page 30 of this MD&A. Excluding this gain, the year-over-year increase in salaries and employee benefits is mostly due to higher performance-based compensation related to the Bank's improved performance on an adjusted basis, partly offset by a decrease in salaries reflecting the headcount reduction implemented in 2020 as well as lower employee benefits.

Premises and technology costs decreased by $7.5 million to $193.0 million for the year ended October 31, 2021, compared with the year ended October 31, 2020. The decrease mostly stems from $4.1 million lower amortization charges and rent expenses resulting from the strategic review and the impairment effected as at the beginning of the fourth quarter of 2021. Strong cost discipline also contributed to the decrease.

Other non-interest expenses decreased by $19.3 million to $125.1 million for 2021, compared with $144.4 million for 2020. The improvement mainly resulted from lower regulatory costs and lower advertising, business development and travel costs ensuing from efficiency measures and current economic conditions, partly offset by an increase in professional and advisory services expenses.

Impairment and restructuring charges increased by $173.6 million to $191.8 million for 2021 compared with $18.3 million for 2020. In 2021, impairment and restructuring charges mainly resulted from the strategic review of the Bank's operations for $96.1 million and from the impairment of the Personal Banking segment for $93.4 million, as detailed in the Business highlights section on page 30 of this MD&A. The Impairment and restructuring charges line-item mainly includes impairment charges, severance charges and charges related to lease and other contracts. In 2020, restructuring charges mainly resulted from branch mergers and from other measures aimed at improving efficiency and included severance charges, as well as charges and provisions related to the termination of lease contracts.

Efficiency ratio

The efficiency ratio was 87.8% for the year ended October 31, 2021, compared with 75.6% for the year ended October 31, 2020. The increase year-over-year is mainly due to the impairment and restructuring charges recorded in 2021 described above. The adjusted efficiency ratio was 68.2% for the year ended October 31, 2021, down from 72.3% for the year ended October 31, 2020, as a result of an increase in total revenue and a decrease in adjusted non-interest expenses.

Table 10 details non-interest expenses from 2019 to 2021.

TABLE 10
NON-INTEREST EXPENSES

In thousands of dollars, except percentage amounts	2021	2020	2019	Variance 2021/2020
Salaries and employee benefits				
Salaries	$ 225,669	$ 231,535	$ 233,453	
Performance-based compensation	85,796	67,331	53,536	
Employee benefits	58,935	71,669	70,407	
	370,400	370,535	357,396	— %
Premises and technology				
Technology costs	117,380	118,918	113,323	
Depreciation and amortization	49,782	51,450	32,030	
Rent and property taxes	20,272	24,380	45,088	
Other	5,571	5,781	6,910	
	193,005	200,529	197,351	(4)%
Other				
Professional and advisory services	39,580	37,249	40,079	
Advertising, business development and travel	21,157	25,858	36,060	
Communications	17,127	17,202	15,943	
Other	47,249	64,125	66,985	
	125,113	144,434	159,067	(13)%
Impairment and restructuring charges				
Strategic review-related charges	96,067	—	—	
Personal Bank segment impairment charges	93,392	—	—	
Restructuring charges	2,385	18,289	12,679	
	191,844	18,289	12,679	949 %
Non-interest expenses	$ 880,362	$ 733,787	$ 726,493	20 %
Adjusted non-interest expenses[1]	$ 683,540	$ 701,857	$ 700,103	(3)%

(1) This is a non-GAAP financial measure. Refer to the Non-GAAP Financial and Other Measures section on page 28 for more information.

INCOME TAXES

For the year ended October 31, 2021, the income tax expense was $15.5 million and the effective tax rate was 21.4%. The lower effective tax rate, compared to the statutory rate, is attributed to a lower taxation level of income from foreign operations, as well as from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income, partly offset by the non tax-deductible goodwill impairment charge recorded in 2021. For the year ended October 31, 2020, the income tax expense was $6.2 million, and the effective tax rate was 5.2%. The higher tax rate for the year ended October 31, 2021, when compared to the prior year, mainly resulted from the non tax-deductible goodwill impairment charge recorded in 2021, as noted above.

Note 19 to the Consolidated Financial Statements provides further information on income taxes.

TABLE 11
RECONCILIATION OF THE INCOME TAX EXPENSE TO THE DOLLAR AMOUNT OF INCOME TAX USING THE STATUTORY RATE

In thousands of dollars, except percentage amounts	2021		2020	
Income taxes at statutory rates	$ 18,982	26.1 %	$ 31,774	26.4 %
Change resulting from:				
Lower taxation related to income from foreign operations	(9,394)	(12.9)	(18,373)	(15.3)
Non-taxable dividends and non-taxable portion of capital gains	(3,471)	(4.8)	(4,876)	(4.0)
Impairment of goodwill	9,227	12.7	—	—
Other, net	182	0.3	(2,326)	(1.9)
Income taxes as reported in the Consolidated Statement of Income	$ 15,526	21.4 %	$ 6,199	5.2 %

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, 2021, loans provided to key management personnel totalled $0.9 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, 2021, these deposits totalled $0.6 million.

See Note 21 to the Consolidated Financial Statements for additional information on related party transactions.

OVERVIEW OF FISCAL 2020

The Bank 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 included adjusting items, as detailed in the Non-GAAP Financial and Other Measures section on page 28.

The financial impact of COVID-19, as of the second quarter of 2020, hampered the Bank's ability to deliver on most of its 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.

ANALYSIS OF QUARTERLY RESULTS

FOURTH QUARTER OF 2021 COMPARED WITH FOURTH QUARTER OF 2020

Net loss was $102.9 million and diluted loss per share was $2.39 for the fourth quarter of 2021, compared with net income of $36.8 million and diluted earnings per share of $0.79 for the fourth quarter of 2020. Of note, reported results for the fourth quarter of 2021 include impairment and restructuring charges of $189.4 million ($148.5 million after income taxes), or $3.40 per share, mainly related to the strategic review of the Bank's operations completed in the fourth quarter of 2021 and to the impairment of the Personal Banking segment. Adjusted net income was $47.8 million for the fourth quarter of 2021, up from $42.3 million for the fourth quarter of 2020, and adjusted diluted earnings per share were $1.06, compared with $0.91 for the fourth quarter of 2020. Net income available to common shareholders included the dividend declared on the Preferred Shares Series 13 in the fourth quarter of 2021, whereas, in the fourth quarter of 2020, it included dividends declared on the Preferred Shares Series 13 and on the Preferred Shares Series 15 redeemed in June 2021.

Total revenue

Total revenue was $250.4 million for the fourth quarter of 2021, up 3% compared with $243.5 million for the fourth quarter of 2020.

Net interest income increased by $3.7 million to $173.1 million for the fourth quarter of 2021, compared with $169.3 million for the fourth quarter of 2020. The increase was mainly due to improved funding costs, mostly as the utilization of secured funding increased year-over-year. Net interest margin was 1.83% for the fourth quarter of 2021, an increase of 1 basis point compared with the fourth quarter of 2020 for the same reasons.

Other income increased by $3.1 million or 4% to $77.3 million for the fourth quarter of 2021, compared with $74.2 million for the fourth quarter of 2020. The increase was mainly due to higher commissions from sales of mutual funds and strong revenues from fees and brokerage commissions, which improved respectively by $1.9 million and $4.3 million compared with the fourth quarter of 2020, partly offset by lower income from financial instruments.

Provision for credit losses

The provision for credit losses was $24.9 million for the fourth quarter of 2021 compared with $24.2 million for the fourth quarter of 2020, an increase of $0.7 million as higher provisions on performing loans were partly offset by lower provisions on impaired loans. The provision for credit losses as a percentage of average loans and acceptances stood at 30 bps for the quarter, compared to 29 bps for the same quarter a year ago.

The provision for credit losses on performing loans was $22.0 million for the fourth quarter of 2021 and increased by $10.9 million compared with the fourth quarter of 2020, primarily reflecting higher provisions on the personal loan portfolio, partly offset by lower provisions on commercial loans and residential mortgage loans due to the prior year impact of the COVID-19 pandemic. In the fourth quarter of 2021, the Bank reviewed its strategy in relation to its investment loan portfolio and reassessed the product design and credit standards. Consequently, remediation will be accelerated for a portion of the investment loan portfolio, which led to an increase of $19.3 million in allowances and provisions for credit losses in the quarter related to this portfolio. The provision for credit losses on impaired loans was $2.9 million for the fourth quarter of 2021 and decreased by $10.2 million, due to lower provisions on residential mortgage loans and commercial loans, partly offset by higher provisions on personal loans.

Refer to the "Credit risk management" section on pages 54 to 61 of this MD&A and to Note 6 to the Consolidated Financial Statements for more information on provision for credit losses and allowances for credit losses.

Non-interest expenses

Non-interest expenses amounted to $356.5 million for the fourth quarter of 2021, an increase of $178.9 million compared with the fourth quarter of 2020. Of note, reported results for the fourth quarter of 2021 include impairment and restructuring charges of $189.4 million mainly related to the strategic review of the Bank's operations completed in the fourth quarter of 2021 and to the impairment of the Personal Banking segment. Refer to the Non-GAAP Financial and Other Measures on page 28 and the Business Highlights section on page 30 for further details. Adjusted non-interest expenses amounted to $164.1 million for the fourth quarter of 2021, a decrease of $6.2 million or 4% compared with the fourth quarter of 2020.

Salaries and employee benefits amounted to $87.7 million for the fourth quarter of 2021, a decrease of $1.2 million compared with the fourth quarter of 2020. Lower employee benefits were partly offset by higher performance-based compensation related to the Bank's improved performance, on an adjusted basis, compared with the fourth quarter of 2020.

Premises and technology costs were $45.4 million for the fourth quarter of 2021, a decrease of $4.5 million compared with the fourth quarter of 2020. The decrease mostly stems from $4.1 million lower amortization charges and rent expenses resulting from the strategic review and the impairment effected as at the beginning of the fourth quarter of 2021.

Other non-interest expenses were $34.0 million for the fourth quarter of 2021, a decrease of $0.7 million compared with the fourth quarter of 2020, mainly resulting from cost discipline.

Impairment and restructuring charges were $189.4 million for the fourth quarter of 2021, an increase of $185.2 million compared with the fourth quarter of 2020. In the fourth quarter of 2021, impairment and restructuring charges mainly resulted from the strategic review of the Bank's operations for $96.1 million, the impairment of the Personal Banking segment for $93.4 million, as detailed in the Business highlights section on page 30 of this MD&A. The Impairment and restructuring charges line-item mainly includes impairment charges, severance charges and charges related to lease and other contracts. In the fourth quarter of 2020, restructuring charges mainly resulted from branch mergers and other measures aimed at improving efficiency and included severance charges, as well as charges and provisions related to the termination of lease contracts.

Efficiency ratio

The efficiency ratio on a reported basis was 142.3% for the fourth quarter of 2021, compared with 72.9% for the fourth quarter of 2020. The increase year-over-year is mainly due to the impairment and restructuring charges recorded in 2021 described above. The adjusted efficiency ratio was 65.5% for the fourth quarter of 2021, compared to 69.9% for the fourth quarter of 2020. This 440 basis point improvement was a result of an increase in total revenue and a decrease in adjusted non-interest expenses.

Income taxes

For the quarter ended October 31, 2021, the income tax recovery was $28.1 million, and the effective tax rate was 21.4%. The lower effective tax rate, compared to the statutory rate, is mostly attributed to the non tax-deductible goodwill impairment charge recorded in the fourth quarter of 2021. For the quarter ended October 31, 2020, the income tax expense was $4.8 million, and the effective tax rate was 11.6%.

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 more 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 2021 and 2020.

TABLE 12
QUARTERLY RESULTS

In thousands of dollars, except per share and percentage amounts				2021				2020
	Oct. 31	**July 31**	**April 30**	**Jan. 31**	Oct. 31	July 31	April 30	Jan. 31
Net interest income	**$173,095**	**$174,696**	**$171,476**	**$173,074**	$169,346	$173,546	$170,747	$168,785
Other income	**77,336**	**80,188**	**78,292**	**74,300**	74,193	75,063	69,401	69,928
Total revenue	**250,431**	**254,884**	**249,768**	**247,374**	243,539	248,609	240,148	238,713
Amortization of net premium on purchased financial instruments	**—**	**—**	**—**	**—**	100	127	179	232
Provision for credit losses	**24,900**	**5,400**	**2,400**	**16,800**	24,200	22,300	54,900	14,900
Non-interest expenses	**356,480**	**170,258**	**179,561**	**174,063**	177,592	183,777	183,516	188,902
Income before income taxes	**(130,949)**	**79,226**	**67,807**	**56,511**	41,647	42,405	1,553	34,679
Income taxes	**(28,073)**	**17,162**	**14,745**	**11,692**	4,836	6,188	(7,332)	2,507
Net income (loss)	**$(102,876)**	**$ 62,064**	**$ 53,062**	**$ 44,819**	$ 36,811	$ 36,217	$ 8,885	$ 32,172
Preferred share dividends and limited recourse capital note interest	**1,355**	**4,677**	**3,116**	**3,117**	2,874	3,198	3,197	3,197
Net income (loss) available to common shareholders	**$(104,231)**	**$ 57,387**	**$ 49,946**	**$ 41,702**	$ 33,937	$ 33,019	$ 5,688	$ 28,975
Diluted earnings (loss) per share	**$ (2.39)**	**$ 1.32**	**$ 1.15**	**$ 0.96**	$ 0.79	$ 0.77	$ 0.13	$ 0.68
Return on common shareholders' equity	**(16.9)%**	**9.4 %**	**8.6 %**	**7.1 %**	5.9 %	5.8 %	1.0 %	5.0 %
Non-GAAP financial measures and ratios[(1)]								
Adjusted non-interest expenses	**$164,100**	**$174,414**	**$174,657**	**$170,369**	$170,250	$169,190	$179,648	$182,769
Adjusted income before income taxes	**$ 61,431**	**$ 75,070**	**$ 72,711**	**$ 60,205**	$ 49,089	$ 57,119	$ 5,600	$ 41,044
Adjusted net income	**$ 47,829**	**$ 59,046**	**$ 56,704**	**$ 47,572**	$ 42,311	$ 47,083	$ 11,912	$ 36,900
Adjusted net income available to common shareholders	**$ 46,474**	**$ 54,369**	**$ 53,588**	**$ 44,455**	$ 39,437	$ 43,885	$ 8,715	$ 33,703
Adjusted diluted earnings per share	**$ 1.06**	**$ 1.25**	**$ 1.23**	**$ 1.03**	$ 0.91	$ 1.02	$ 0.20	$ 0.79
Adjusted return on common shareholders' equity	**7.5 %**	**8.9 %**	**9.2 %**	**7.5 %**	6.8 %	7.7 %	1.5 %	5.8 %

(1) Refer to the Non-GAAP Financial and Other Measures section on page 28 for more information.

TABLE 13
ADJUSTING ITEMS IMPACTING QUARTERLY RESULTS

In thousands of dollars				2021				2020
	Oct. 31	**July 31**	**April 30**	**Jan. 31**	Oct. 31	July 31	April 30	Jan. 31
Adjusting items[(1)], before income taxes								
Strategic review-related charges	**$ 96,067**	**$ —**	**$ —**	**$ —**	$ —	$ —	$ —	$ —
Personal Banking segment impairment charges	**93,392**	**—**	**—**	**—**	—	—	—	—
Restructuring charges	**(88)**	**(38)**	**1,890**	**621**	4,162	11,067	326	2,734
Net gain on the settlement of pension plans resulting from annuity purchase	**—**	**(7,064)**	**—**	**—**	—	—	—	—
Amortization of acquisition-related intangible assets	**3,009**	**2,946**	**3,014**	**3,073**	3,180	3,520	3,542	3,399
Adjusting items excluded from adjusted non-interest expenses	**192,380**	**(4,156)**	**4,904**	**3,694**	7,342	14,587	3,868	6,133
Amortization of net premium on purchased financial instruments	**—**	**—**	**—**	**—**	100	127	179	232
Adjusting items excluded from adjusted income before income taxes	**$ 192,380**	**$ (4,156)**	**$ 4,904**	**$ 3,694**	$ 7,442	$ 14,714	$ 4,047	$ 6,365
Adjusting items[(1)], net of income taxes								
Strategic review-related charges	**$ 70,638**	**$ —**	**$ —**	**$ —**	$ —	$ —	$ —	$ —
Personal Banking segment impairment charges	**77,884**	**—**	**—**	**—**	—	—	—	—
Restructuring charges	**(65)**	**(29)**	**1,390**	**457**	3,061	8,133	239	2,010
Net gain on the settlement of pension plans resulting from annuity purchases	**—**	**(5,194)**	**—**	**—**	—	—	—	—
Amortization of acquisition-related intangible assets	**2,248**	**2,205**	**2,252**	**2,296**	2,362	2,640	2,657	2,547
Amortization of net premium on purchased financial instruments	**—**	**—**	**—**	**—**	77	93	131	171
Adjusting items excluded from adjusted net income and adjusted net income available to common shareholders	**$ 150,705**	**$ (3,018)**	**$ 3,642**	**$ 2,753**	$ 5,500	$ 10,866	$ 3,027	$ 4,728

(1) Refer to the Non-GAAP Financial and Other Measures section on page 28 for more information.

Trend analysis

Net interest income
Net interest income generally increased throughout 2020 and 2021, as improved funding costs from the increased utilization of secured funding were partly offset by a year-over-year decrease in interest income due to lower loan volumes to personal customers and in inventory financing activities.

Other income
Other income generally increased throughout 2020 and 2021, mostly as a result of market driven revenues, including trading and brokerage operations, as well as increases from real estate lending activities. 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 and 2021, mostly as Visa credit card transaction volumes declined as a result of the COVID-19 pandemic.

Provision for credit losses
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 recession. In 2021, while uncertainty over the impact of the COVID-19 pandemic remained, the economic outlook improved and led to releases of provisions on performing loans as of the second quarter of 2021. In the fourth quarter of 2021, a review of the investment loan portfolio led to an increase of allowances and provisions for credit losses of $19.3 million.

Non-interest expenses
Non-interest expenses generally decreased throughout 2020 and the first nine months of 2021. In the second half of 2020, non-interest 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 economic conditions. Impairment and restructuring charges mostly for the fourth quarter of 2021 and the third quarter of 2020 also impacted the level of non-interest expenses.

ANALYSIS OF FINANCIAL CONDITION

TABLE 14
CONDENSED BALANCE SHEET

In thousands of dollars	2021	2020
Assets		
Cash and deposits with banks	$ **667,123**	$ 672,842
Securities	**6,499,193**	5,799,216
Securities purchased under reverse repurchase agreements	**2,764,281**	3,140,228
Loans and acceptances, net	**33,449,707**	33,019,603
Other assets	**1,696,720**	1,535,771
	$ **45,077,024**	$ 44,167,660
Liabilities and Shareholders' Equity		
Deposits	$ **22,988,229**	$ 23,920,203
Other liabilities	**7,842,613**	7,102,277
Debt related to securitization activities	**11,255,530**	10,184,497
Subordinated debt	**349,782**	349,442
Shareholders' equity	**2,640,870**	2,611,241
	$ **45,077,024**	$ 44,167,660

As at October 31, 2021, total assets amounted to $45.1 billion, a 2% increase from $44.2 billion as at October 31, 2020, mostly due to the higher level of liquid assets and loans.

Liquid assets

Liquid assets consist of cash, deposits with banks, securities and securities purchased under reverse repurchase agreements. As at October 31, 2021, these assets amounted to $9.9 billion, an increase of $0.3 billion compared with $9.6 billion as at October 31, 2020.

The Bank continues to prudently manage its level of liquid assets. The Bank's funding sources remain well diversified and sufficient to meet all liquidity requirements. Liquid assets represented 22% of total assets as at October 31, 2021, in line with October 31, 2020. Additional information on liquidity and funding risk management is included on page 65 of this MD&A.

Loans

Loans and bankers' acceptances, net of allowances, stood at $33.4 billion as at October 31, 2021, an increase of $0.4 billion or 1% since October 31, 2020. During 2021, commercial loan growth resumed, while personal loans and residential mortgage loans declined.

Commercial loans and acceptances amounted to $14.1 billion as at October 31, 2021, an increase of 11% since October 31, 2020. Real estate lending accounted for most of the increase and continued to show resilience during the COVID-19 pandemic. Growth in inventory financing volumes at the end of 2021 also contributed to the increase, despite the impact of continued supply chain challenges and high consumer demand for recreational products reducing the need for inventory financing.

Personal loans amounted to $3.7 billion as at October 31, 2021, a decrease of $0.4 billion or 11% since October 31, 2020, mainly as a result of the continued decline in the investment loan portfolio.

Residential mortgage loans amounted to $15.9 billion as at October 31, 2021, a decrease of $0.5 billion or 3% since October 31, 2020. This decline is reflective of the challenges faces by the Personal Banking segment to fully support the ongoing changing needs of customers. As discussed in the Other business highlights section, as part of its plan to renew growth in residential mortgage loans, the Bank completed an end to end review for both the broker and branch channel mortgage processes and identified improvements and opportunities for harmonization and simplification.

Other assets

Other assets stood at $1.7 billion as at October 31, 2021, an increase of $0.2 billion or 10% since October 31, 2020.

LIABILITIES

Deposits

Deposits decreased by $0.9 billion or 4% to $23.0 billion as at October 31, 2021 compared with $23.9 billion as at October 31, 2020, mainly as the Bank optimized its funding sources to align with its asset levels. Personal deposits stood at $18.2 billion as at October 31, 2021, down $0.6 billion compared with October 31, 2020. The decrease mainly resulted from lower term deposits sourced through intermediaries, managed down as the Bank increased its debt related to securitization activities to optimize funding costs, partly offset by growth in personal notice and demand deposits of $0.8 billion or 16% over the same period.

Personal deposits represented 79% of total deposits as at October 31, 2021, in line with October 31, 2020, and contributed to the Bank's good liquidity position.

Business and other deposits decreased by $0.3 billion over the same period to $4.8 billion, mostly due to a decrease in wholesale funding as the Bank optimized its funding costs as outlined above. Business and other deposits now include the Bank's covered bonds, as further discussed in the Structured entities section below.

Other liabilities

Other liabilities increased to $7.8 billion as at October 31, 2021 from $7.1 billion as at October 31, 2020. The year-over-year increase resulted mainly from higher obligations related to securities sold under repurchase agreements associated with trading activities.

Debt related to securitization activities

Debt related to securitization activities increased by $1.1 billion or 11% compared with October 31, 2020 and stood at $11.3 billion as at October 31, 2021, contributing to the improvement in funding costs. Since the beginning of the year, mortgage loan securitization through the CMHC programs, supplemented by other secured funding, 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 7 and 14 to the Consolidated Financial Statements.

Subordinated debt

Subordinated debt stood at $349.8 million as at October 31, 2021, mainly unchanged compared with October 31, 2020. 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 $2,640.9 million as at October 31, 2021, compared with $2,611.2 million as at October 31, 2020. Compared to October 31, 2020, retained earnings increased by $42.3 million, mainly as a result of the net income contribution of $57.1 million, as well as to other gains related to employee benefit plans and equity securities designated at fair value through other comprehensive income of $69.9 million. These increases were partly offset by dividends amounting to $81.7 million during the year. Accumulated other comprehensive income decreased by $28.7 million, mainly as a result of a reduction in the cumulative foreign currency translation amount. During the third quarter of 2021, the Bank also redeemed the Non-Cumulative Class A Preferred Shares, Series 15 (Non-Viability Contingent Capital (NVCC)) and issued Limited Recourse Capital Notes, as detailed below. For additional information, please refer to the Consolidated Statement of Changes in Shareholders' Equity in the Consolidated Financial Statements.

The Bank's book value per common share was $53.99 as at October 31, 2021 compared to $53.74 as at October 31, 2020.

Limited recourse capital notes
On May 7, 2021, the Bank issued Limited Recourse Capital Notes, Series 1 (Non-Viability Contingent Capital (NVCC)) (Subordinated Indebtedness) ("LRCN") for an aggregate principal amount of $125 million. LRCN bear interest at a rate of 5.30% annually, payable semi-annually, for the initial period from the date of issue to June 15, 2026. LRCN were classified as equity on the balance sheet and fully qualify as Additional Tier 1 capital under the Basel III capital adequacy framework and the Office of the Superintendent of Financial Institutions (OSFI) Capital Adequacy Requirements (CAR)Guideline as they include mandatory non-viability contingency capital provisions.

In connection with the issuance of LRCN, the Bank also issued Non-Cumulative 5-Year Fixed Rate Reset Class A Preferred Shares, Series 17 (Non-Viability Contingent Capital (NVCC)) ("Preferred Shares Series 17") to Computershare Trust Company of Canada as trustee for a newly formed trust (the "Limited Recourse Trust"). In case of non-payment of principal of or interest on LRCN when due, the recourse of each noteholder will be limited to that holder's proportionate share of the Limited Recourse Trust's assets which, except in limited circumstances, will consist of Preferred Shares Series 17. The Preferred Shares Series 17 are treasury shares eliminated on the Bank's consolidated balance sheet prior to a recourse event. The net proceeds of the issuance were used to redeem the Bank's outstanding 5,000,000 Non-Cumulative Class A Preferred Shares, Series 15 (Non-Viability Contingent Capital (NVCC)) on June 15, 2021, at an aggregate redemption price of $125 million.

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 December 3, 2021 (in number of shares/options)

Preferred shares	
Series 13	5,000,000
Common shares	43,586,967
Share purchase options	983,012

OFF-BALANCE SHEET ARRANGEMENTS AND STRUCTURED ENTITIES

In the normal course of its operations, the Bank uses structured entities to securitize or transfer 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, 2021 these items totalled $31.0 billion, up $3.2 billion or 12% compared with October 31, 2020. Fees, commissions and other income related to these assets contribute significantly to the Bank's profitability.

TABLE 16
ASSETS UNDER ADMINISTRATION[1]

In thousands of dollars	**2021**	2020	2019
Registered and non-registered investment accounts	**$ 20,838,595**	$ 19,474,098	$ 20,381,169
Clients' brokerage assets	**5,305,279**	4,045,863	4,462,402
Mutual funds	**3,989,132**	3,345,359	3,299,609
Loans under administration	**753,351**	788,032	662,530
Institutional assets	**106,021**	98,719	91,906
Other	**6,589**	6,955	8,100
Assets under administration	**$ 30,998,967**	$ 27,759,026	$ 28,905,716

(1) This is a supplementary financial measure. Refer to the Non-GAAP Financial and Other Measures section on page 28 for more information.

Assets related to registered and non-registered investment accounts were up by $1,364.5 million year-over-year, reflecting higher market values of underlying investments and an increased number of accounts under management.

Clients' brokerage assets increased by $1.3 billion or 31% year-over-year, as a result of higher market values, and an expanded client base.

Mutual fund assets under administration in LBC Financial Services, mainly composed of the preferred series of LBC-Mackenzie mutual funds, increased by $643.8 million or 19% year-over-year, mostly as a result of higher market values and increased net sales.

Loans under administration, mainly including syndication activities, loans administered for third parties and derecognized securitized mortgage loans, decreased by $34.7 million. This line item also includes loans administered under the new Canada Emergency Business Account (CEBA) amounting to $96.9 million as at October 31, 2021, 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 $60,000 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 $20.3 billion as at October 31, 2021 with a net positive fair value of $109.9 million.

Notes 22 to 25 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 29 to the Consolidated Financial Statements provides additional information.

TABLE 17
CREDIT COMMITMENTS AND GUARANTEES

In thousands of dollars	**2021**	2020
Undrawn amounts under approved credit facilities[1]	**$ 6,029,352**	$ 5,866,082
Standby letters of credit and performance guarantees	**$ 203,406**	$ 226,475
Documentary letters of credit	**$ 8,166**	$ 4,673

(1) Excluding credit facilities revocable at the Bank's option totalling $4.0 billion as at October 31, 2021 ($4.1 billion as at October 31, 2020)

STRUCTURED ENTITIES

Securitization

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 7 and 14 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.

Covered bonds

In April 21, 2021, the Bank received approval from Canada Mortgage and Housing Corporation ("CMHC") to establish a $2.0 billion legislative covered bond programme ("Programme") pursuant to Canadian Registered Covered Bond Programs Guide. On May 6, 2021, the Bank issued its inaugural $250.0 million covered bonds which bear interest at an annual coupon of 1.603%, payable semi-annually. The Programme further diversifies the Bank's funding sources, reduces the cost of funding and is expected to help the Bank deliver competitively priced products to its customers.

The Bank will periodically transfer mortgages to LBC Covered Bond (Legislative) Guarantor Limited Partnership (the Guarantor LP) to support funding activities and asset coverage requirements under the Programme. The Guarantor LP was created to guarantee payment of the principal and interest owed to the bondholders. The covered bonds guaranteed by the Guarantor LP are direct, unsecured and unconditional obligations of the Bank; therefore, investors have a claim against the Bank which will continue if the covered bonds are not paid by the Bank and the mortgage assets in the Guarantor LP are insufficient to satisfy the obligations owing on the covered bonds. Note 7 to the Consolidated Financial Statements provides additional information on the covered bond programme.

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 using a building block approach wherein capital is assigned to each risk components. 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, developing and implementing the Capital Management and Adequacy Policy, the ICAAP and the integrated stress testing exercise, as well as measuring regulatory capital ratios.
- *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. 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 is 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. Since March 2020, the DSB was 1.0% of total risk-weighted-assets, as part of OSFI's response to COVID-19. In June 2021, OSFI announced that the DSB was being increased to 2.5% by prudence due to key vulnerabilities such as household and corporate debt levels that remain elevated or have increased since March 2020. 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. The Bank is using the less complex Standardized Approach, which relies on regulatory weightings. As noted above, the Bank is pursuing the adoption of the AIRB approach to credit risk, subject to regulatory approval which will use the Bank's internal estimates of risk components to establish risk-weighted assets and calculate regulatory capital. The AIRB approach will strengthen the Bank's credit risk management, optimize regulatory capital and provide a level playing field for credit underwriting activities. In the current context of its strategic review and priorities, the Bank is not expecting to complete the process before 2025.

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

Changes to Capital, Leverage and Liquidity Requirements and related Disclosures.
On March 11, 2021, OSFI released for public consultation revisions to the Capital Adequacy Requirements (CAR) Guideline, Leverage Requirements (LR) Guideline, and Liquidity Adequacy Requirements (LAR) Guideline (together, "the Guidelines"). The proposed revisions to the CAR and LR Guidelines reflect OSFI's domestic implementation of the final Basel III reforms as set out in the consolidated Basel Framework published by the BCBS. In addition, proposed revisions to these guidelines, as well as those proposed to the LAR Guideline, include changes to reflect specific capital and liquidity requirements applicable to small and medium sized deposit-taking institutions (SMSBs). These changes align to the draft new SMSB Capital and Liquidity Requirements Guideline (the SMSB Capital and Liquidity Guideline) that was also released on the same date for public consultation.

Concurrent with the consultation, OSFI is consulting on proposed changes to the Pillar 3 Disclosure Guideline applicable to Domestic Systemically Important Banks (D-SIBs). These enhanced disclosure requirements incorporate revisions to the Guidelines to support transparency and promote market discipline.

On August, 5, 2021, continuing its initiative to develop tailored requirements for the Canadian Small and Medium-Sized Banks (SMSBs), OSFI issued for Public Consultation the Draft Pillar 3 Disclosure Guideline for SMSBs. The Draft Guideline lists the disclosures required by SMSBs and their respective implementation dates. OSFI intends to finalize the guideline by January 2022.

On November 29, 2021, OSFI announced a deferral in the timing for the domestic implementation of the final Basel III reforms by one quarter from Q1 2023 to Q2 2023. Consistent with this change, OSFI is also delaying the timing for the implementation of the SMSB Capital and Liquidity framework and changes to the Pillar 3 Disclosure Requirements Guidelines for all institutions, also to Q2 2023.

The Bank will continue to monitor and prepare for developments impacting regulatory capital requirements.

OSFI consultation on enhanced assurance expectations
On April 13, 2021, OSFI launched a ten-week consultation with the publication of a discussion paper, Assurance on Capital, Leverage and Liquidity Returns for federally regulated insurers (FRIs) and deposit-taking institutions (DTIs). The paper focuses on enhancing and aligning assurance expectations given the increasing complexity arising from the evolving regulatory reporting framework. OSFI proposes to have assurance expectations apply to capital, leverage and liquidity returns of all federally regulated DTIs.

Regulatory capital developments in support of COVID-19 efforts
In March 2020, OSFI set out a series of regulatory and supervisory adjustments to support the financial and operational resilience of federally regulated financial institutions following the onset of the COVID-19 pandemic. Among these measures were temporary expectations that institutions not increase regular dividends, undertake common share repurchases or raise executive compensation.

On November 4, 2021, OSFI announced that institutions may again increase regular dividends and executive compensation. Additionally, subject to the existing requirement for Superintendent approval, they may once again repurchase shares.

Regulatory capital ratios

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

In thousands of dollars, except percentage amounts	2021	2020
Regulatory capital[1]		
Common Equity Tier 1 capital	**$ 2,038,761**	$ 1,893,079
Tier 1 capital	**$ 2,283,297**	$ 2,137,117
Total capital	**$ 2,730,005**	$ 2,571,212
Total risk-weighted assets[2]	**$ 20,007,010**	$ 19,669,263
Regulatory capital ratios		
Common Equity Tier 1 capital ratio	**10.2 %**	9.6 %
Tier 1 capital ratio	**11.4 %**	10.9 %
Total capital ratio	**13.7 %**	13.1 %

(1) The Common Equity Tier 1, Tier 1 and Total capital ratios excluding the ECL transitional arrangements were 10.1%, 11.3% and 13.6% respectively as at October 31, 2021.
(2) Using the Standardized approach in determining credit risk and operational risk.

TABLE 19
RISK-WEIGHTED ASSETS

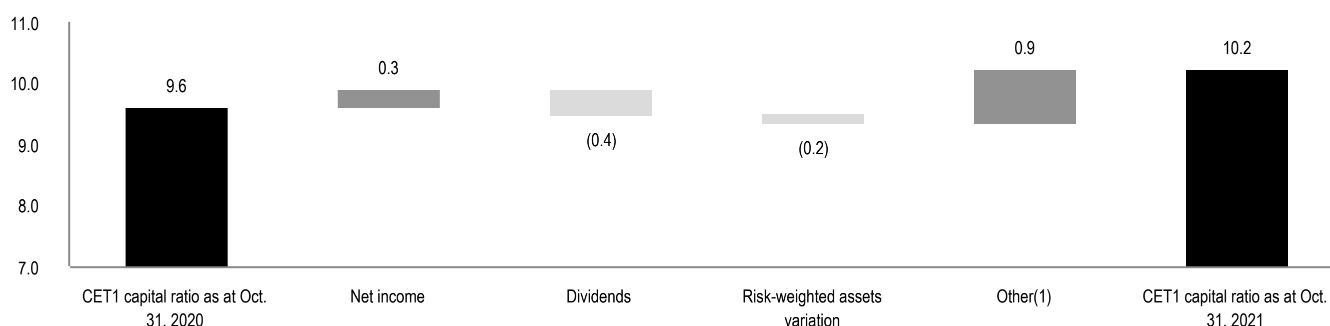
In thousands of dollars	2021			2020		
	Total exposure	**Risk-weighted assets**[1]	**Capital requirements**	Total exposure	Risk-weighted assets[1]	Capital requirements
Exposure Class (after risk mitigation)						
Corporate	**$ 10,246,647**	**$ 10,249,948**	**$ 717,496**	$ 9,628,030	$ 9,643,843	$ 675,069
Sovereign	**9,280,483**	**76,868**	**5,381**	7,886,895	67,820	4,747
Bank	**465,366**	**108,178**	**7,572**	476,366	98,471	6,893
Retail residential mortgage loans	**19,057,830**	**2,862,426**	**200,370**	18,525,439	2,944,316	206,102
Other retail	**1,433,824**	**870,813**	**60,957**	1,781,945	1,082,493	75,775
Small business entities treated as other retail	**1,797,355**	**1,341,087**	**93,876**	1,730,247	1,290,010	90,301
Equity	**339,195**	**339,195**	**23,744**	307,694	307,694	21,539
Securitization	**2,440**	**2,132**	**149**	4,275	3,003	210
Other assets	**1,375,006**	**747,272**	**52,309**	1,556,397	788,120	55,168
	43,998,146	**16,597,919**	**1,161,854**	41,897,288	16,225,770	1,135,804
Derivatives	**204,812**	**100,294**	**7,021**	236,712	133,068	9,315
Credit commitments	**1,633,413**	**1,597,084**	**111,796**	1,658,830	1,607,200	112,504
Operational risk		**1,711,713**	**119,820**		1,703,225	119,226
	$ 45,836,371	**$ 20,007,010**	**$ 1,400,491**	$ 43,792,830	$ 19,669,263	$ 1,376,848
Balance sheet items						
Cash, deposits with banks, securities and securities financing transactions		**$ 605,060**			$ 720,886	
Personal loans		**1,072,605**			1,312,789	
Residential mortgage loans		**2,713,184**			3,239,658	
Commercial loans		**11,513,228**			10,365,192	
Other assets		**693,842**			587,245	
		$ 16,597,919			$ 16,225,770	

(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, mainly 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.

The Common Equity Tier 1 capital ratio stood at 10.2% as at October 31, 2021, compared with 9.6% as at October 31, 2020. The increase compared with October 31, 2020 mainly results from internal capital generation and other gains related to employee benefit plans and equity securities designated at fair value through other comprehensive income. This level of capital provides the Bank with the necessary operational flexibility to resume growth and to pursue key initiatives prudently, considering economic conditions.

The graph below shows the change in Common Equity Tier 1 capital ratio from October 31, 2020 to October 31, 2021.

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



(1) Comprised of other variations in other comprehensive income related to equity securities designated at fair value through other comprehensive income and employee benefit plans, as well as lower deductions for goodwill, software and other intangible assets as a result of the Personal Banking segment impairment.

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 5.1% as at October 31, 2021 and exceeded regulatory requirements.

TABLE 20
BASEL III LEVERAGE RATIO

In thousands of dollars, except percentage amounts	2021	2020
Tier 1 capital	$ 2,283,297	$ 2,137,117
Total exposures	$ 44,973,981	$ 44,452,632
Basel III leverage ratio[1]	5.1 %	4.8 %

(1) The Basel III leverage ratio excluding the ECL transitional arrangements was 5.0% as at October 31, 2021.

NVCC CAPITAL INSTRUMENTS

NVCC provisions require the conversion of the capital instrument into a variable number of common shares in the event that OSFI deems a bank to be non-viable or a federal or provincial government in Canada publicly announces that a bank has accepted or agreed to accept a capital injection. If a NVCC trigger event were to occur, NVCC capital instruments as at October 31, 2021, which are the Class A Preferred Shares Series 13, the subordinated debentures due on June 22, 2022, as well as the LRCN Series 1 would be converted into common shares pursuant to an automatic conversion formula with a conversion price based on the greater of: (i) a contractual floor price of $5.00, and (ii) the current market price of the Bank's common shares at the time of the trigger event (10-day weighted average). Based on a floor price of $5.00 and assuming no accrued interest and no declared and unpaid dividends, these NVCC capital instruments would convert into a maximum of 120,000,000 common shares, in aggregate, which would represent a dilution impact of 73.4% based on the number of common shares outstanding as at October 31, 2021.

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 16 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. Table 21 summarizes dividends declared for the last three years.

On December 9, 2021, the Board of Directors declared a quarterly dividend of $0.44 per common share, payable on February 1, 2022 to shareholders of record on January 3, 2022.This quarterly dividend is up 10% compared with the dividend declared the previous quarter and previous year. The Board also determined that shares attributed under the Bank's Shareholder Dividend Reinvestment and Share Purchase Plan will now be made in common shares issued from Corporate Treasury without a discount. The Board also approved the Bank's intention to launch a normal course issuer bid ("NCIB"), subject to the approval of the OSFI and the TSX, permitting the purchase for cancellation of up to 875,000 of its common shares, representing approximately 2% of the Bank's issued and outstanding common shares.

TABLE 21
SHARE DIVIDENDS AND PAYOUT RATIO

In thousands of dollars, except per share and percentage amounts	**2021**	2020	2019
Dividends declared on preferred shares	**$ 10,638**	$ 12,466	$ 12,632
Dividends declared per common share	**$ 1.60**	$ 2.14	$ 2.62
Dividends declared on common shares	**$ 69,407**	$ 91,630	$ 110,737
Dividend payout ratio	**154.9 %**	90.2 %	69.3 %
Adjusted dividend payout ratio[1]	**34.9 %**	72.9 %	61.4 %

(1) Refer to the Non-GAAP Financial and Other Measures section on page 28.

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, 2021 and 2020.

RISK CULTURE

The Bank's management is dedicated to promoting a risk management culture throughout the Bank. 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

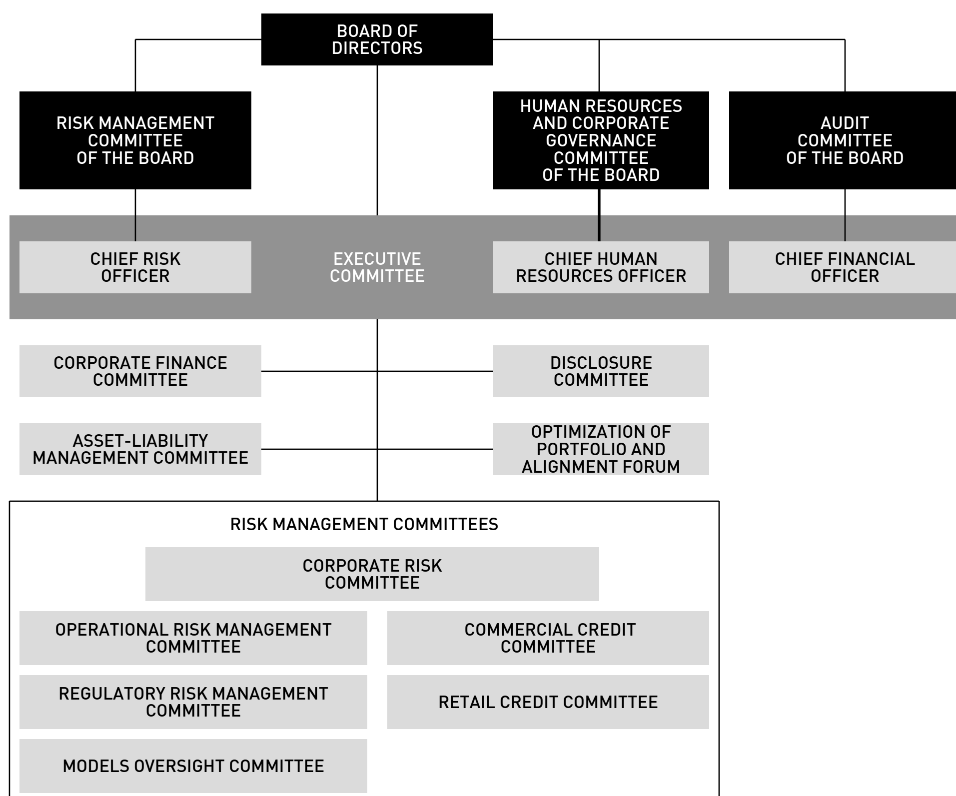
In March 2020, the World Health Organization declared COVID-19 as a global pandemic. Since then, governments have implemented emergency measures such as travel restrictions, border restrictions, business closures and physical distancing in order to reduce the spread of the virus. Governments and other regulatory entities have also introduced various personal and business relief programs and changes to the monetary policy in order to stabilize the economy. As of recently, these measures are gradually being lifted. However, the COVID-19 situation and the health measures have resulted in a significant impact to business activities and the economy.

These measures 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 no longer represents a menace to global health conditions, its final impact on the global economy remains hard to predict, threatening certain segments of the Bank's customers' solvency, and accentuating volatility in the financial markets. Deteriorating credit and market conditions resulting from the pandemic may also further adversely impact the Bank's 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 "Economic Outlook" of this Annual Report, the COVID-19 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 *Optimization of Portfolio and Alignment Forum*, co-chaired by the Vice President, Initiative Management and Project Management Office and the Vice President, Solution Delivery, is responsible to carry out portfolio management governance functions, including providing recommendations to prioritize and schedule key strategic programs and projects. The forum also provides ongoing oversight of the overall health status of the portfolios, discusses underlying issues or risks and escalates to the Executive Committee as required

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 key operational risks including potential threats. 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 Chief Risk Officer, 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 - Risk identification, detection and management - Disclosure of risks and losses - Control implementation - Business continuity plans - Application of the regulatory risk management framework	- Designing and developing policies and frameworks - Determining risk management thresholds - Development of risk measurement and self-assessment tools - Risk reporting and disclosure - Assessment of business continuity plans - 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 6 to the Consolidated Financial Statements and in Tables 25 to 27. Refer to page 57 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, 2021 and 2020 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

In millions of dollars		2021		2020
Financial assets, as stated in the consolidated balance sheet[1]	$	**43,975**	$	43,084
Credit commitments[2]		**6,038**		5,871
	$	**50,013**	$	48,955

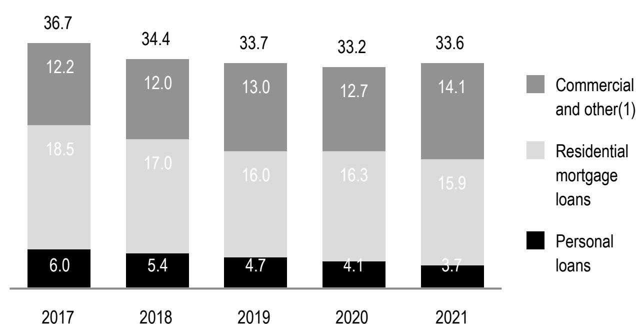
(1) Excluding equity securities.
(2) Excluding credit facilities revocable at the Bank's option totalling $4.0 billion as at October 31, 2021 ($4.1 billion as at October 31, 2020).

Loan portfolio mix

The Bank's loan portfolio consists of personal loans, residential mortgage loans and commercial loans, including customers' liabilities under acceptances. 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. The residential mortgage loan portfolio includes retail mortgage loans secured by one- to four-unit dwellings. 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.

Personal loans and residential mortgage loans represented 58% of the Bank's total loan portfolio as at October 31, 2021, compared with 62% a year ago. Commercial loans accounted for 42% of total loans as at October 31, 2021, compared with 38% a year ago.

LOAN PORTFOLIO MIX
In billions of dollars



(1) Including customers' liabilities under acceptances.

Industry distribution of commercial loans

The commercial loan portfolio covers a wide range of industries, with no specific industry accounting for more than 17% of total loans and acceptances as at October 31, 2021 (13% as at October 31, 2020), demonstrating good diversification and risk management.

See Table 23 for additional information.

TABLE 23

DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO AND INDUSTRY

In thousands of dollars, except percentage amounts

2021

	Gross amount of loans	Gross amount of impaired loans	Allowances on impaired loans (Stage 3)	Net impaired loans[1]	Provision for credit losses[2]
Personal	$ 3,681,341	$ 16,201	$ 9,471	$ 6,730	$ 27,106
Residential mortgage	15,856,999	58,192	4,209	53,983	4,212
Commercial					
Real estate, renting and lease	5,642,961	36,595	4,780	31,815	394
Construction[3]	3,238,936	28,214	2,747	25,467	3,350
Wholesale and retail	2,164,462	21,861	17,898	3,963	(6,204)
Transportation and communication	1,006,757	14,738	4,095	10,643	(804)
Other services and government	741,856	19,362	9,904	9,458	4,434
Financial services	503,125	26	1	25	(4)
Manufacturing	312,593	14,459	2,361	12,098	(661)
Public utilities	216,951	33,516	26,488	7,028	18,259
Transformation and natural resources	119,189	134	43	91	(900)
Agriculture	82,666	17	10	7	576
Other	76,927	7,595	4,985	2,610	(258)
	14,106,423	176,517	73,312	103,205	18,182
Total	$ 33,644,763	$ 250,910	$ 86,992	$ 163,918	$ 49,500

2020

	Gross amount of loans	Gross amount of impaired loans	Allowances on 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					
Real estate, renting and lease	4,359,457	15,638	2,515	13,123	10,372
Construction[3]	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 on impaired loans.
(2) Recorded in the consolidated statement of income.
(3) Including loans to developers of revenue-generating properties.

Geographic distribution of loans

The Bank operates across Canada and in the U.S. As at October 31, 2021, the geographic distribution of total loans was as follows: 8% in British Columbia and Territories, 10% in Alberta and the Prairies, 32% in Ontario, 41% in Quebec, 3% in the Atlantic provinces and 6% in the United States.

Over the recent years, the Bank has made significant progress towards diversifying its geographical footprint. Table 24 below presents the geographic distribution of the Bank's loans.

TABLE 24
GEOGRAPHIC DISTRIBUTION OF LOANS BY CREDIT PORTFOLIO
In thousands of dollars, except percentage amounts

2021

	Personal loans	Residential mortgage loans	Commercial loans	Gross amount of loans	Gross amount of loans (in %)
British Columbia and Territories	$ 537,945	$ 1,608,768	$ 700,400	$ 2,847,113	8.5 %
Alberta and Prairies	327,323	2,123,293	825,978	$ 3,276,594	9.7
Ontario	1,328,564	5,728,980	3,684,226	$ 10,741,770	31.9
Quebec	1,369,153	5,867,391	6,553,743	$ 13,790,287	41.0
Atlantic provinces	118,356	528,567	411,431	$ 1,058,354	3.1
United States	—	—	1,930,645	$ 1,930,645	5.7
	$ 3,681,341	$ 15,856,999	$ 14,106,423	$ 33,644,763	100.0 %

2020

	Personal loans	Residential mortgage loans	Commercial loans	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 %

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, the Bank updated its economic scenarios to assess collective provisions as at October 31, 2021. The three scenarios, "base", "downside" and "upside", were probability weighted as part of the Bank's approach to determining the expected credit losses as at October 31, 2021 and are further described in Note 6 to the Consolidated Financial Statements.

Collective allowances are sensitive to model inputs, including macroeconomic variables in the forward-looking scenarios and their respective probability weighting, among other factors. When possible, the Bank's 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, the Bank also applied expert judgment given this unprecedented situation. The COVID-19 pandemic led to significant negative changes to forward-looking information in 2020, resulting in an increase in expected credit losses. The outlooks have progressively improved in 2021, which provided a basis to a reduced level of expected credit losses. However, the overall uncertainty with respect to the continuing impact of the pandemic, including worldwide supply-chain issues, remains high. This may result in future volatility in expected credit losses until the eventual return to a fully normalized worldwide operating environment.

The full extent of the impact of the COVID-19 pandemic on the Canadian and U.S. economies is still uncertain. Therefore, it remains difficult to predict whether the COVID-19 pandemic may result in significant write-offs in the future, or if the Bank will need to recognize additional increases or release significant portions of its allowances for credit losses in subsequent periods.

Provision for credit losses

Total provision for credit losses of $49.5 million decreased by $66.8 million or 57% compared with the year ended October 31, 2020, as the prior year reflected higher provisions on performing loans due to the impact of COVID-19 as well as higher provisions on impaired loans.

The provision for credit losses on performing loans decreased by $35.5 million for the year ended October 31, 2021 compared with the year ended October 31, 2020, primarily reflecting releases of provisions on commercial loans and partly offset by higher provisions on personal loans. Of note, the Bank reviewed its strategy in relation to its investment loan portfolio and reassessed the product design and credit standards in the fourth quarter of 2021. Consequently, remediation will be accelerated for a portion of the investment loan portfolio, which led to an increase of $19.3 million in allowances and provisions for credit losses in 2021 related to this portfolio. While

uncertainty over the impact of the COVID-19 pandemic remains, the releases of provisions on commercial loans were largely due to an improving economic outlook in the second and third quarters of 2021. Provisions on residential mortgage loans remained low, in part as a result of the more favourable outlooks, but also to the strong residential housing market.

The provision for credit losses on impaired loans of $41.9 million decreased by $31.3 million for the year ended October 31, 2021 compared with the year ended October 31, 2020, mainly due to lower provisions on personal and commercial loans.

TABLE 25

PROVISION FOR CREDIT LOSSES

In thousands of dollars, except percentage amounts	**2021**	2020	2019
Personal loans			
Performing (Stage 1 and 2)	**$ 17,822**	$ (717)	$ (4,561)
Impaired (Stage 3)	**9,284**	27,530	22,341
	27,106	26,813	17,780
Residential mortgage loans			
Performing (Stage 1 and 2)	**835**	6,678	(430)
Impaired (Stage 3)	**3,377**	6,264	3,714
	4,212	12,942	3,284
Commercial loans[1]			
Performing (Stage 1 and 2)	**(11,086)**	37,105	2,516
Impaired (Stage 3)	**29,268**	39,440	20,820
	18,182	76,545	23,336
Total loans			
Performing (Stage 1 and 2)	**7,571**	43,066	(2,475)
Impaired (Stage 3)	**41,929**	73,234	46,875
Provision for credit losses	**$ 49,500**	$ 116,300	$ 44,400
As a % of average loans and acceptances	**0.15 %**	0.35 %	0.13 %

(1) Including customers' liabilities under acceptances.

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 $250.9 million as at October 31, 2021, down $21.8 million or 8% compared with October 31, 2020, mainly due to decreases in personal and residential mortgage impaired loans.

Allowances for loan losses on impaired loans increased by $10.6 million compared with October 31, 2020, mainly with regards to the commercial loan portfolio. Allowances for loan losses on performing loans amounted to $108.1 million as at October 31, 2021, up $11.0 million compared with October 31, 2020, mainly driven by an increase of $19.3 million in allowances for credit losses related to the investment loan portfolio aforementioned, partly offset by the impact of the improving economic outlook on expected credit losses. The Bank remains cautious in this context, as government support decreases, and while payment deferral measures have ended.

See Note 6 to the Consolidated Financial Statements for additional information.

TABLE 26
IMPAIRED LOANS

In thousands of dollars, except percentage amounts	2021	2020
Gross impaired loans		
Personal	$ **16,201**	$ 36,105
Residential mortgages	**58,192**	65,846
Commercial	**176,517**	170,786
	250,910	272,737
Allowances for loan losses on impaired loans (Stage 3)	**(86,992)**	(76,435)
Net impaired loans	$ **163,918**	$ 196,302
Impaired loans as a % of loans and acceptances		
Gross	**0.75 %**	0.82 %
Net	**0.49 %**	0.59 %
Allowances for loan losses against performing loans		
Stage 1	$ **(55,296)**	$ (56,866)
Stage 2	**(52,768)**	(40,221)
	$ **(108,064)**	$ (97,087)

TABLE 27
GEOGRAPHIC DISTRIBUTION OF IMPAIRED LOANS BY CREDIT PORTFOLIO

In thousands of dollars, except percentage amounts					**2021**
	Personal loans	**Residential mortgage loans**	**Commercial loans**	**Gross amount of impaired loans**	**Gross amount of impaired loans (in %)**
British Columbia and Territories	$ **480**	$ **1,094**	$ **32,236**	$ **33,810**	**13.5 %**
Alberta and Prairies	**2,079**	**6,130**	**16,019**	**24,228**	**9.7**
Ontario	**4,963**	**4,347**	**10,053**	**19,363**	**7.7**
Quebec	**7,345**	**45,888**	**116,133**	**169,366**	**67.5**
Atlantic provinces	**1,334**	**733**	**—**	**2,067**	**0.8**
United States	**—**	**—**	**2,076**	**2,076**	**0.8**
	$ **16,201**	$ **58,192**	$ **176,517**	$ **250,910**	**100.0 %**

					2020
	Personal loans	Residential mortgage loans	Commercial loans	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	19,162	43,987	117,635	180,784	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 %

Payment relief programs

Loans subject to payment relief programs still outstanding amounted to $2.2 million as at October 31, 2021 and consisted of commercial loans ($219.7 million mainly consisting of residential mortgage loans as at October 31, 2020). The Bank is monitoring the accounts which no longer benefit from the programs and its current assessment of the COVID-19 situation is that underlying losses should remain manageable. Refer to Note 6 to the Consolidated Financial Statements for additional information.

Insurance and guarantees held in respect of loan portfolios

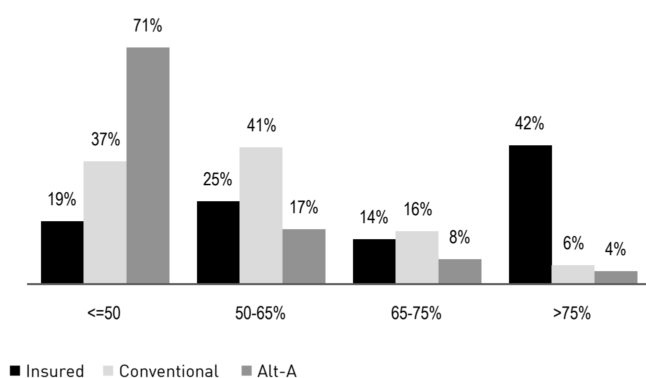
A significant proportion of the Bank's residential mortgage loan portfolio is insured by the CMHC, or by Sagen and Canada Guaranty Mortgage Insurance Company (the Mortgage Insurers). In addition, the Bank's loan portfolios are to a large extent, secured by assets pledged as collateral by borrowers or, 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 2021, 57% of residential mortgage loans secured by one- to four-unit dwellings were insured, unchanged compared to a year ago. 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.

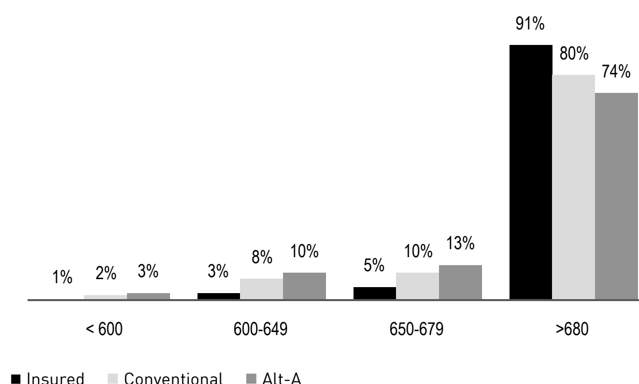
LOAN-TO-VALUE DISTRIBUTION

As at October 31, 2021



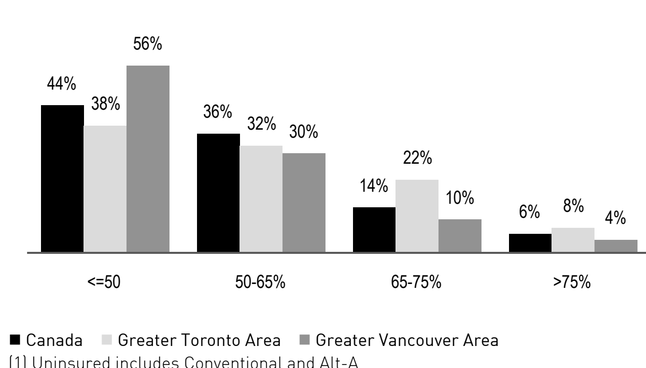
BEACON DISTRIBUTION

As at October 31, 2021



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

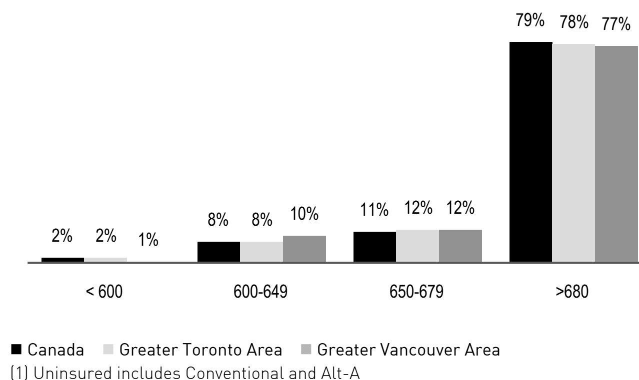
As at October 31, 2021



(1) Uninsured includes Conventional and Alt-A

GEOGRAPHIC BEACON DISTRIBUTION (UNINSURED)(1)

As at October 31, 2021



(1) Uninsured includes Conventional and Alt-A

As at October 31, 2021, the estimated average loan-to-value ratio was 59% for insured residential mortgage loans and 45% 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, 7% of the Bank's personal loan portfolio as at October 31, 2021 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, 2021, the approximate market value of collateral pledged to the Bank related to assets purchased under reverse repurchase agreements was $6.7 billion ($5.9 billion as at October 31, 2020).

As at October 31, 2021, the approximate market value of collateral pledged to the Bank related to derivatives was $42.1 million ($57.4 million as at October 31, 2020).

MARKET RISK MANAGEMENT

Market risk is the financial loss that the Bank may 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

The Bank's reference market risk measure is the expected shortfall. The expected shortfall represents the average trading loss beyond a 97.5% confidence interval. While statistically equivalent to a 99% Value at Risk (VaR) under a normal distribution, the expected shortfall puts more emphasis on tail risk than the VaR measure. 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

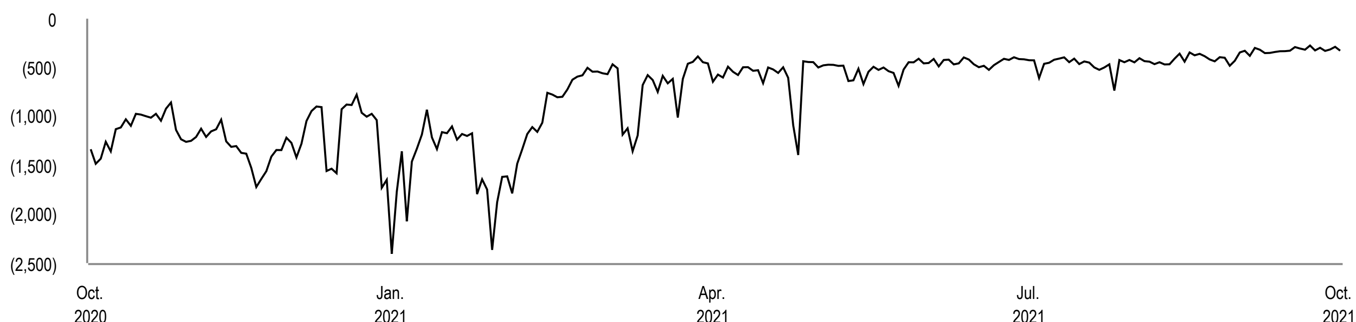
Parallel to expected shortfall calculations, the impact of stress tests on profits and losses is assessed for the trading and investment portfolios and the ensuing results are used to assess the impact of exceptional but plausible market situations. Stress tests constitute a complementary risk measure 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 2021 fiscal year.

DAILY TRADING EXPECTED SHORTFALL

For the year ended October 31, 2021 (in thousands of 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 impact on net interest income from interest rate movements over the next 12 months. Economic value of shareholders' equity risk measures the net 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, duration and repricing gap reports are produced weekly. Simulation analysis are also performed 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 100 bps increase and decrease in interest rates, as shown in Table 28. 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 CDOR 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. The current level of interest rates remains low, however rate hikes are expected as economic conditions improve. As such, risks and concerns raised by potentially zero or negative rates are mitigated, but the impacts of prolonged low interest rates on net interest income persist as financial instruments are repriced at lower rates and some deposits have a zero floor rate. Prolonged low interest rates may challenge the long-term profitability of the banking sector and this is considered as part of our strategic planning.

TABLE 28

SENSITIVITY ANALYSIS OF THE STRUCTURAL INTEREST RATE RISK

In thousands of dollars, except percentage amounts		**2021**		2020
	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	**$ 15,635**	**$ (33,420)**	$ 23,476	$ (36,690)
Decrease of 100 basis points	**$ (1,989)**	**$ 28,856**	$ (9,610)	$ 29,627

(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 this impact. When the Canadian dollar fluctuates against the U.S. dollar, 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 and though trading operations. 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, 2021, assets and liabilities carried in Canadian entities and denominated in U.S. dollars amounted to $594.3 million ($637.1 million as at October 31, 2020) and $288.2 million ($317.2 million as at October 31, 2020) respectively. As at October 31, 2021, 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 $22.4 million ($22.3 million as at October 31, 2020) and $16.9 million ($19.4 million as at October 31, 2020) respectively as at October 31, 2021.

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, 2021, a fluctuation in the stock markets of 10% would have had a $17.0 million impact on the Bank's shareholders' equity ($17.4 million as at October 31, 2020).

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 regularly reviewed by Corporate Treasury according to the model management cycle, validated by Corporate Risk Management 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 93% of the Bank's high-quality liquid assets are invested in Level 1 assets as at October 31, 2021. 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, 2021.

Regulatory developments concerning liquidity

In March 2021, OSFI issued its latest version of its Draft Guideline for the implementation of the Small and Medium-Sized Banks (SMSB) Capital and Liquidity Requirements. It includes 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 November 29, 2021, OSFI announced a deferral for the implementation of the SMSB Capital and Liquidity framework to Q2 2023.

On March 11, 2021, OSFI also announced changes to its Liquidity Adequacy Required Guideline (LAR) in order to improve risk-sensitivity and make sure that financial institutions are carrying enough liquid assets to provide for contingent liquidity demands and maintain their lending activities event during periods of financial stress. On November 29, 2021, OSFI announced that revisions to the Liquidity Adequacy Requirements (LAR) Guideline will be implemented as of April 1, 2023 for all institutions.

The numerous measures introduced by OSFI and the Bank of Canada in 2020 to provide financial institutions with greater flexibility in addressing the COVID-19 pandemic have been gradually reduced and withdrawn. The withdrawal of these measures had little impact on how the Bank manages its liquidity risk.

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, 2021, these assets totalled $9.9 billion, an increase of $0.3 billion compared to the level held on October 31, 2020.

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.

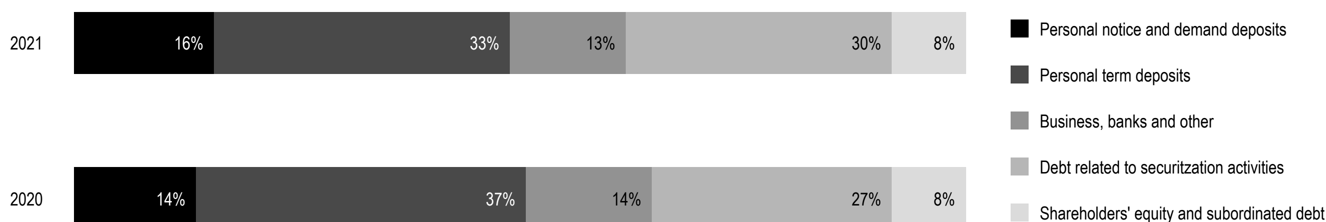
Funding

The Bank's lending operations primarily rely on funding from personal deposits, a particularly stable source. The Bank's funding strategy mainly relies on a well-established branch network 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 overall funding sources. Furthermore, the Bank uses securitization of residential mortgage loans through the CMHC programs and, to a lesser extent, securitization of residential mortgages, 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.

In 2021, the Bank further strengthened, diversified and optimized its funding sources by establishing a $2.0 billion legislative covered bond programme and issuing its inaugural covered bonds. The covered bond programme reduces the cost of funding and is expected to help the Bank deliver competitively priced products to its customers. The Bank also issued in 2021 an inaugural serie of Limited Recourse Capital Notes, which provide a preferential tax treatment to the issuer as compared to other sources of Tier 1 capital and lowers the Bank's overall cost of capital.

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 branches, a digital platform and the Advisors and Brokers channel. 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 network of independent financial advisors. As well, 67% of personal deposits are term deposits as at October 31, 2021.

Business, banks and other deposits

Deposits from businesses, banks and other 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. Business and other deposits now include the Bank's covered bonds

TABLE 29
DEPOSITS

In thousands of dollars, except percentage amounts	2021		2020	
Personal				
Notice and demand				
Quebec Branch Network	$ 2,592,409	11.3 %	$ 2,466,488	10.3 %
Advisors and Brokers	2,983,581	13.0	2,271,453	9.5
Digital Direct to Customers	490,163	2.1	504,559	2.1
	6,066,153	26.4	5,242,500	21.9
Term				
Quebec Branch Network	4,292,761	18.7	4,692,705	19.6
Advisors and Brokers	7,735,007	33.7	8,795,812	36.8
Digital Direct to Customers	57,123	0.2	65,133	0.3
	12,084,891	52.6	13,553,650	56.7
	18,151,044	79.0	18,796,150	78.6
Business, banks and other				
Notice and demand	1,736,294	7.6	1,642,176	7.0
Term				
Institutional	2,306,978	9.9	2,484,482	10.4
Other	793,913	3.5	997,395	4.2
	3,100,891	13.4	3,481,877	14.6
	4,837,185	21.0	5,124,053	21.4
Deposits	$ 22,988,229	100.0 %	$ 23,920,203	100.0 %

Credit ratings

Personal deposits, as detailed above, constitute the most important source of financing for the Bank. The Bank also accesses wholesale markets to obtain financing through securitization and unsecured funding. The Bank's capacity to obtain such financing, especially wholesale funding, is tied to the credit ratings set by rating agencies such as DBRS Morningstar ("DBRS") and S&P Global Ratings ("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 collateral requirements. As at October 31, 2021, additional collateral that would be required in the event of a one-to-three-notch rating downgrade was not significant.

On April 15, 2021, DBRS confirmed the Bank's ratings and changed its outlook from "Negative" to "Stable".

On April 16, 2021, S&P affirmed the Bank's ratings and revised the Bank's rating outlook from negative to stable.

On April 30, 2021, S&P assigned its 'BB-' issue-level rating to the Limited Recourse Capital Notes and the Preferred Shares Series 17.

On May 6, 2021, DBRS finalized its provisional rating of AAA on the Covered Bonds.

On May 7, 2021, DBRS finalized its provisional rating on the Bank's Limited Recourse Capital Notes at BB (high) with a Stable Trend.

Table 30 presents the Bank's credit ratings as established by the rating agencies.

TABLE 30
CREDIT RATINGS
As at October 31, 2021

	DBRS	S&P
Long-term deposits and debt	A (low)	BBB
Covered bonds	AAA	n/a
Short-term instruments	R-1 (low)	A-2
NVCC Subordinated debt	BBB (low)	BB+
NVCC Limited recourse capital notes	BB (high)	BB-
NVCC Preferred Shares	Pfd-3	BB-
Outlook	Stable	Stable

(1) 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.
(2) 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.

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 29 to the Consolidated Financial Statements provides further information on other contractual obligations.

The Bank is also exposed to liquidity risk when it provides credit commitments to clients. As at October 31, 2021, these commitments amounted to approximately $6.0 billion ($5.9 billion as at October 31, 2020), 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, 2021 and 2020. 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.

TABLE 31

CONTRACTUAL MATURITIES OF ASSETS AND LIABILITIES

									2021
	Term								
In thousands of dollars	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	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 69,002	$ 69,002
Interest-bearing deposits with banks	472,093	—	—	25,000	—	—	—	101,028	598,121
Securities	700,462	236,520	545,582	95,149	1,306,974	1,658,171	1,631,214	325,121	6,499,193
Securities purchased under reverse repurchase agreements	2,216,738	311,441	94,118	91,988	49,996	—	—	—	2,764,281
Loans[1]									
Personal loans	35,591	16,087	17,350	29,578	81,966	27,021	6,729	3,467,019	3,681,341
Residential mortgages	854,713	834,365	1,058,118	910,309	1,789,023	10,246,094	47,017	117,360	15,856,999
Commercial loans	2,456,796	922,397	1,163,813	752,675	2,539,074	2,462,739	1,484,525	2,324,404	14,106,423
Allowances for loan losses	—	—	—	—	—	—	—	(195,056)	(195,056)
	3,347,100	1,772,849	2,239,281	1,692,562	4,410,063	12,735,854	1,538,271	5,713,727	33,449,707
Others	2,524	594	1,344	213	628	396	—	1,691,021	1,696,720
Total assets	$6,738,917	$2,321,404	$2,880,325	$1,904,912	$5,767,661	$14,394,421	$3,169,485	$ 7,899,899	$45,077,024
Liabilities and equity									
Deposits									
Personal deposits[1]	$1,857,632	$1,689,257	$1,718,259	$1,531,813	$3,337,987	$ 1,932,861	$ 38,926	$ 6,044,309	$18,151,044
Business, Banks and other deposits[1]	78,551	177,233	224,022	132,476	135,507	36,978	1,214	1,744,226	2,530,207
Wholesale deposits	507,500	232,000	243,270	346,341	401,908	327,422	—	—	2,058,441
Covered bonds	—	—	—	—	—	248,537	—	—	248,537
	2,443,683	2,098,490	2,185,551	2,010,630	3,875,402	2,545,798	40,140	7,788,535	22,988,229
Obligations related to securities sold short[2]	164,118	370,808	28,237	190,432	354,891	918,046	1,200,660	24,490	3,251,682
Obligations related to securities sold under repurchase agreements	1,620,728	627,277	189,573	187,288	146,608	—	—	—	2,771,474
Other liabilities	4,052	4,020	3,956	3,876	25,167	19,072	59,998	1,699,316	1,819,457
Debt related to securitization activities[3]	567,601	180,014	523,331	338,379	1,472,184	6,490,459	1,658,956	24,606	11,255,530
Subordinated debt	—	—	349,782	—	—	—	—	—	349,782
Equity	—	—	—	—	—	—	—	2,640,870	2,640,870
Total liabilities and equity	$4,800,182	$3,280,609	$3,280,430	$2,730,605	$5,874,252	$ 9,973,375	$2,959,754	$12,177,817	$45,077,024

(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.

2020									
	Term								
In thousands of dollars	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[4]	—	—	—	—	—	—	—	2,611,241	2,611,241
Total liabilities and equity	$ 4,462,980	$4,750,666	$2,595,466	$2,351,709	$6,983,573	$ 9,416,287	$2,442,078	$11,164,901	$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.
(4) Equity amounts have been reclassified in order to conform with the current year presentation.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of loss or harm 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 processed on a daily basis, and the complexity and speed of 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 risk is the risk of non-compliance with applicable statutes, regulations, rules, guidelines, other regulatory directives or requirements imposed or prescribed by governments, regulators, examiners, or other regulatory organizations and agencies. Failure to meet regulatory requirements can impact the Bank's ability to meet strategic objectives, poses a risk of financial penalties and sanctions may lead to legal proceedings and/or cause reputational harm. The Regulatory Risk Management Framework 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 assess 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 regulatory issues and situations of non-compliance as appropriate;
- Reinforcement of controls and correction of regulatory issues and situations of non-compliance.

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 Framework 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 (AMLTF) Program Coordination Committee oversees applicable AMLTF 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 AMLTF 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 or measure, that could cause the Bank's actual results to differ significantly from its 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 in the forward-looking statements. 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.

Impact of the COVID-19 pandemic

On March 11, 2020, COVID-19 had spread worldwide and was declared a global pandemic by the World Health Organization. The COVID-19 pandemic has since significantly disrupted global health, economic and market conditions, businesses of all sizes and nature, and has caused an indeterminate period of uncertainty and slowdown in the global economy. Various measures have been taken by governmental and non-governmental bodies 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. Such measures have caused and may, depending on their nature, continue to cause significant and adverse disruptions to the Canadian economy. Governments and other regulatory entities have since introduced unprecedented measures to provide economic assistance to households and businesses in order to stabilize the financial markets and support some degree of economic growth. These measures have helped some households and businesses to mitigate some of the adverse effects of the pandemic in the short-term. Extraordinary asset purchase programs enacted by central banks also prevented financial stress and contributed to foster positive economic momentum and generate market risk taking. Significant advances in medical science were made during 2021 with the introduction of COVID-19 vaccines and the Canadian government's encouragement to achieve mass immunizations. Despite the availability of the vaccines and the lifting of certain restrictive measures, the adverse effects of the pandemic are likely to continue, and its impact on the Bank's business and financial condition will depend on a number of factors and uncertainties, including, the emergence of new waves or variants, the efficacy of vaccines in the long-term, achieving mass immunizations, future government controls and restrictions, and their respective effects on the global and Canadian economies, the effects on households and businesses once economic assistance has ceased.

Although the Bank's provision of banking services is considered an essential service in Canada, allowing the Bank to operate albeit with some significant limitations (such as adhering to lockdown and social distancing measures), the COVID-19 pandemic has had and continues to have material adverse repercussions on the Bank's business, quality and continuity of services, operations, team members and third-party providers, has threatened its customers' solvency and has created and continues to create significant volatility and negative impact 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 extent 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 which are sensitive to forward-looking macro-economic scenarios including projections impacting the commercial, residential and personal loan portfolios, as a result of financial stress on the customers. It is difficult at this juncture to predict whether the increase in expected credit losses recognized in 2020 will result in significant write-offs.
- A reduction in loan levels, which adds pressure on revenues by impacting both net interest income and margins. Specifically, the Bank has experienced a decrease in commercial loans due in part to the effect of the pandemic disrupting global supply chains. 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 declined due to consumers higher precautionary savings and smaller share of their revenues allocated to spending.
- 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.
- 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 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, estimates of the economic recovery underway 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, particularly how quickly and to what extent normal economic activity across all sectors 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 persistent second-order effects such as supply disruptions in the global economy, higher CPI inflation and future modifications to macro policies, the effects of which may persist beyond that time and which may not be fully reflected in the Bank's 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.

Reliance on technology and third parties

The Bank recognizes the added value of using third parties to provide access to leading applications, products, and services, innovation, specialized support, operational efficiencies and economies of scale. This has led the Bank to rely on third parties as part of its technological and operational infrastructures, for services such as internet and network connections, hardware and software for communication services, and business processes that handle IT-related and automated activities. An interruption in the availability of any one of these services, regardless of its downtime, can have an adverse impact on the Bank's ability to operate in the normal course of business. Such an interruption can also adversely impact the Bank's service quality and reputation, and our employees and their ability to continue working in-office or remotely.

To mitigate against related risks, the Bank's risk management framework includes, a number of preventive measures, such as requirements to have third parties and their products and services vetted and validated in accordance with the Bank's risk management procedures before agreements are executed, and business continuity plans that are periodically reviewed and tested to ensure efficacy and adequacy during a time of crisis. Despite the Bank's efforts to manage and mitigate third party risks, there remains the possibility that certain risks will materialize that may be beyond the Bank's control or ability to manage, effectively, timely, or otherwise.

During the COVID-19 pandemic, a large percentage of the Bank's employees have been working remotely and this has led the Bank to increase its digital channels and its reliance on certain products and services as part of technological and operational infrastructures. This has heightened the Bank's exposure to third party risks.

Work from home arrangements

The COVID-19 pandemic and related health concerns, lockdowns and restrictions have forced the Bank to make significant and unprecedented changes to its operations and how its employees carry out their day-to-day duties. Since March 2020, a large percentage of the Bank's employees have been working from home. Such working arrangements can present a number of challenges, risks, and concerns which the Bank, through various means, has addressed and continues to address.

Foremost, is the health and well-being of the Bank's employees and in this regard, the Bank has implemented several key initiatives and additional heath and well-being programs, all designed to help employees stay physically and mentally healthy and productive. In 2022, the Bank will also implement a hybrid work model that allows a large percentage of its employees to choose how and where they want to work – work from home first, on-premises, or a flexible combination.

Although working remotely provides several advantages for employees and the Bank, the Bank recognizes that its employees may use an internet connection to access work-related applications, files, emails, and virtual meetings, which may not comply with the same industry standards as the Bank uses on its premises.

Technology, information systems and cybersecurity

Technology, which is now omnipresent in daily lives, is at the heart of banking services and has become the main driver of innovation in the financial sector and how banking services are now delivered. As such, the security, networks, systems, and performance of the Bank's information and technology infrastructure are critical to the Bank's 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, the Bank is and remains subject to increased and evolving 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, malicious insiders, 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 and reliance on third-party service providers, which are also subject to these attacks and compromises, increases the Bank's risk of a potential attack, breach or disruption as it does not have immediate oversight over their systems and control environment and business continuity plans.

Processes are in place to protect the Bank's network and operations from cyber incidents and emerging cyber threats, and the Bank continues to make strategic investments to maintain its cyber defences in accordance with industry accepted standards and practices (including, the Bank's recent practices implemented in response to the COVID-19 pandemic) Nonetheless, the Bank is exposed to risks related to cybersecurity and the increasing sophistication of cyber-attacks. Losses in connection with these evolving risks include those relating to reputational damage, the misappropriation or unauthorized release of confidential financial of personal information, corporate espionage, loss of business opportunities, damage to computer systems and those of our customers and counterparties, violations of privacy laws, 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 increasing pace of technological 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 operate with less stringent regulatory requirements and oversight and without the costs associated with brick-and-mortar businesses. Failure to keep pace with these competitors and the competition they enable could impact short-term and long-term revenues and earnings over time, if customers choose the products and services they offer. Increased competition from non-traditional service providers, both incumbent and new entrants, requires the Bank to make additional short-term and long-term investment in order to meet clients' changing expectations, acquire and retain customers, 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 it to lose revenue and/or market share. The capacity of the Bank to manage these risks or to innovate and develop technology or keep pace with evolving technologies 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, the Bank 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.

Recently, the Bank announced its commitment to delivering more personalized banking experiences for its customers, with a particular focus on offering banking services through mobile technologies. The Bank is also looking at emerging trends that may further disrupt banking experiences. In this regard, the Bank is considering various options, including making strategic investments to keep pace with

market and emerging trends, exploring partnership opportunities, and experimenting with emerging technologies and processes, internally. However, there can be no assurance that such initiatives will be successful or will achieve the desired results.

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 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.

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-compliance 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. The Bank operates in a complex regulatory environment and the Bank is 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. The Regulatory Risk Management Program devotes substantial resources toward ensuring compliance with laws and regulations. However, it remains possible that the Bank 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 the Bank's reputation, and negatively impact its earnings and ability to conduct some of its businesses. In addition, the Bank is subject to litigation arising in the ordinary course of its business and the adverse resolution of any litigation could have a significant adverse effect on its results or could give rise to significant reputational damage, which in turn could impact its 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 former executives. 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. 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.

The Bank is subject to extensive regulations and regulatory oversight, and regulatory changes can occur in jurisdictions in which the Bank operates its businesses. 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 the Bank operates; 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. Although the Bank implemented the Regulatory Risk Management Program and devotes substantial legal, compliance and operational resources toward monitoring applicable regulatory developments, ensuring compliance with regulations and regulatory developments, and ensuring that compliance deadlines are met, it is possible that the Bank may not be able to predict with certainty the impact of a regulatory development, or how such regulatory development will impact the Bank, or how such regulatory development will be interpreted by governments, regulators, and courts once it becomes effective. These developments require considerable mobilization of technical, human and financial resources in a very short span of time and therefore increase ongoing operational, compliance, and technology costs and therefore impact the complexity of operations and profitability.

Money laundering, terrorist financing, economic sanctions and data privacy violations represent material risk to the Bank including regulatory, legal, financial and reputational exposure. 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 continues to undergo significant regulatory change, with new legislation and amendments to existing legislation anticipated in Canada and other jurisdictions in which the Bank does business.

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. The Bank's senior management team has undergone changes in 2021 and plays a significant role in its success as well as oversees the execution of its business strategies. If the skill sets and diversity of the Bank's workforce, including senior management, do not match the operational requirements of the Bank and foster a winning culture, the Bank will likely not be able to sustain its performance. The ability to retain and motivate the Bank's management team or attract suitable replacements should any members of the management team leave is dependent on, among other things, the competitive nature of the employment market and the career opportunities and compensation that the Bank 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 the Bank's 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 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.

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

Environmental and social (E&S) risk is the potential for an E&S issue associated with the Bank, a client, transaction, product, supplier or activity, to have a negative impact on the Bank's financial position, operations, legal and regulatory compliance, or reputation. E&S issues include, but are not limited to, site contamination, waste management, land and resource use, biodiversity, water quality and availability, climate change, environmental regulation, human rights (including, but not limited to, Indigenous Peoples' rights), and community engagement.

The Bank recognizes the importance of E&S risk management practices and processes and is committed to regular and transparent disclosure. The Bank's short, medium and long-term climate-related priorities are being guided by a roadmap developed from recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

The TCFD has structured its recommendations around four pillars that represent an organization's operating fundamentals: governance, strategy, risk management and metrics and targets. These four major classes of recommendations are intended to provide a framework for the publication of climate-financial information.

Governance

The Board and its Committees oversee senior management who is responsible for the execution of the management of E&S risks and opportunities, which include climate change. The Board provides oversight of the Bank's strategic approach to climate change and its E&S risks, which includes how the Bank manages climate-related risks and opportunities. This year, the Board Committees' respective mandates were expanded in this regard.

This year, the Bank's Chief Executive Officer undertook the role of ESG champion. The Bank has also established an internal enterprise-wide TCFD working group, chaired by the Chief Financial Officer, focused on developing approaches to identify, assess, monitor and report on climate-related risks and opportunities.

Strategy

The Bank recognizes that it has a role to play in accelerating the transition to a low carbon economy and mitigating the risks associated with climate change. The Bank is spearheading initiatives to expand and build new environmental policies, putting practices into place to reduce greenhouse gas emissions and improving sustainability efforts in its day-to-day operations.

Risk management

Climate change is an important business issue, particularly after the ratification of the Paris Agreement and the Canadian government's commitment to take steps to tackle climate change by creating a low-carbon, climate-resilient economy. COP26 and the Glasgow Climate Pact have further emphasized the importance of financial institutions in supporting this transition. A shift to a low-carbon economy will require detailed planning and competent execution, which presents transition risks, many of which are yet to be determined and what their impact would be on the Bank and its operations and performance.

Climate change presents a number of other risks for the Bank such as those resulting from more frequent and more intense extreme weather events and may be a driver of other types of risks including systemic, regulatory, competitive, strategic, reputation, credit and market risk. The Bank may be exposed to climate-related risk through emerging regulatory and legal requirements, disruptions to its operations and services, and the products and services it provides to its clients.

Climate-related risks are currently managed through the Bank's Business Continuity Management Program, which provides 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, in order to evaluate the risks associated with credit counterparty transactions and exposures. As part of its TCFD roadmap, the Bank is in the process of completing a classification of the transition risks and physical risks based on each of the industries that make up its credit portfolios. The result of this assessment will guide the Bank's strategy and serve as a basis for the Bank's climate scenario analysis of these industries for the years to come.

Metrics and targets

The Bank is committed to identifying metrics and targets as part of its TCFD roadmap. In 2020, the Bank initiated the calculation of its carbon footprint – scope one and two – based on WRI/ WBCSD Greenhouse Gas (GHG) Protocol. This initial step will allow the Bank to better understand its emissions and focus on GHG reduction opportunities, as well as to establish targets in the short to medium term.

The Bank is also committed to reducing its environmental footprint by implementing, on a voluntary basis, various eco-responsible measures aimed at reducing its GHG emissions. The Bank applies best practices when it comes to energy and waste management in its operations and encourages its employees to also consider the environment in their daily actions. For example, the Bank offsets CO2 emissions in its corporate office locations by way of a partnership with Bullfrog Power, which ensures that electricity put onto the grid on our behalf is from renewable sources. The Bank's corporate offices are located in LEED-certified buildings.

Other factors

Other factors, which are not under the Bank's control, could affect results, as discussed in the Caution Regarding Forward-Looking Statements on page 26 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, 2021, 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, 2021, 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, 2021, 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 COVID-19 pandemic has amplified uncertainty on the assumptions used by management in making its judgments and estimates. The full extent of the impact that the COVID-19 pandemic will have on the Canadian and U.S. economies and the Bank's business continues to be uncertain and difficult to predict.

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 22 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 6 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. The full extent of the impact of the COVID-19 pandemic on the Canadian and U.S. economies is still uncertain. Therefore, it remains difficult to predict whether the COVID-19 pandemic may result in significant write-offs in the future, or if the Bank will need to recognize additional increases or release significant portions of its allowances for 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.

Modified loans
In some cases, the original terms of a 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, 2021, goodwill stood at $78.4 million, a $38.9 million decrease compared with $117.3 million as at October 31, 2020. 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 its carrying amount. 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 pro rata to the carrying amount of each asset considering that he carrying amount of an asset cannot be reduced below its fair value less costs of disposal.

Management uses several significant estimates to determine the recoverable amount of the CGU, 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.

Goodwill has been allocated to two CGUs, the Personal Banking segment, which caters to the financial needs of retail clients and the Commercial Banking segment, 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 31 to the Consolidated Financial Statements.

Personal Banking segment
As at October 31, 2021, no goodwill remained allocated to the Personal Banking segment.

For the 2021 annual impairment test, the recoverable amount of the Personal Banking segment 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 9.5%. 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 Banking segment was below the its carrying amount.

As a result of the impairment test, the Bank recorded an impairment charge of $93.4 million related to the impairment of goodwill for an amount of $34.9 million, of software and intangible assets for $52.7 million and of premises and equipment for $5.8 million. The allocation of the impairment loss to the assets of the Personal Banking segment, other than goodwill, was done based on the relative carrying amount of these assets. The impairment loss allocated to each asset did not reduce the carrying amount of assets below the greater of their fair value less costs of disposal, their value in use or zero. The fair value was mainly estimated using a depreciated replacement costs approach.

Commercial Banking segment
As at October 31, 2021, goodwill of $78.4 million was allocated to the Commercial Banking segment, compared with $82.4 million as at October 31, 2020.

For the 2021 annual impairment test, the recoverable amount of the Commercial Banking segment 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 9.5%. 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 Commercial Banking segment was in excess of its carrying amount. As a result, no impairment charge was recognized during 2021. Changes in estimates and assumptions could significantly impact the impairment test results.

Refer to Note 10 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 2021, indicators of impairment were identified for the Personal Banking segment's assets as a result of the recent decline in assets and deposit volumes, which, combined with the Bank's limited digital capabilities to support the ongoing changing needs of customers during the pandemic, made it challenging to retain existing customers and acquire net new ones. Management determined that the estimated recoverable amount of the Personal Banking segment was below its carrying amount. Impairment of software and other intangible assets amounting to $52.7 million in 2021 was recorded on the Impairment and restructuring charges line item related to the Personal Banking segment's impairment; refer to the Goodwill section above for details.

In 2020, indicators of impairment were identified for the Bank's assets as a result of the deterioration in economic conditions caused by the COVID-19 pandemic and the related changes to the interest rate environment. 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 software and other intangible assets was recognized.

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. In 2021, indicators of impairment were identified for the Bank's leased corporate office premises. The Bank compared the carrying value of its right-of-use assets to their recoverable amount, which is determined using a value in use approach based on the expected sublease terms over the remainder of the head-leases. These terms notably include base rent recovery and variable rent recovery, as well as the expected absorption period. Impairment of premises and equipment amounting to $36.7 million in 2021 (nil in 2020) was recorded on the Impairment and restructuring charges line item related to management's plan to reduce the Bank's leased corporate office premises.

Refer to Notes 8, 9, 10 and 30 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 3.37% as at October 31, 2021 and 2.71% as at October 31, 2020. 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 18 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 29 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, 2021. These future accounting changes are applicable for the Bank in various annual periods beginning on November 1, 2021. Additional information on the new standards and amendments to existing standards can be found in Note 4 of the Consolidated Financial Statements.

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 IASB 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.

GLOSSARY

GENERAL TERMS

Allowances for credit losses (ACL) 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.

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.

Basis point represents one one-hundredth of a percentage point.

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.

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.

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 consist of loans where one or more events that have a detrimental impact on the estimated future cash flows of a loan have occurred or when contractual payments are 90 days past due.

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.

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.

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 (PCL) 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.

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.

SUPPLEMENTARY FINANCIAL MEASURES

Allowances for credit losses as a % of total loans and acceptances is defined as allowances for credit losses as a percentage of total loans and acceptances.

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.

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

Dividend yield is defined as dividends declared per common share divided by the closing common share price.

Efficiency ratio is a measure of productivity and cost control and is defined as non-interest expenses as a percentage of total revenue.

Gross impaired loans as a % of loans and acceptances is defined as impaired loans as a percentage of total loans and acceptances at the end of the period.

Interest-bearing liabilities include the Bank's deposits, debt related to securitization activities and subordinated debt used in the Bank's treasury operations and derivatives, but exclude interest-bearing liabilities related to trading activities.

Net interest margin is the ratio of net interest income to average earning assets (based on the daily balances for the period), expressed as a percentage or basis points.

Net impaired loans as a % of loans and acceptances is defined as impaired loans less allowances for credit losses for impaired loans, as a percentage of total loans and acceptances at the end of the period.

Operating leverage is a measure of efficiency and is the difference between total revenue and non-interest expenses growth rates.

Provision for credit losses as a % of average loans and acceptances is defined as provision for credit losses as a percentage of average loans and acceptances. For average loans and acceptances, the averages are based on the daily balances for the period.

Price / earnings ratio is defined as closing common share price divided by basic earnings per share.

RISK AND CAPITAL TERMS

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.

Capital ratios are defined as either Common Equity Tier 1 capital, Tier 1 capital or Total capital divided by risk-weighted assets.

Common Equity Tier 1 (CET1) capital represents, under Basel III, more permanent forms of capital, and primarily consists of common shareholders' equity and accumulated other comprehensive income (AOCI), less a deduction for goodwill, software and other intangibles, net pension assets, cash flow hedge reserves and certain other deductions prescribed by OSFI.

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.

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 (LCR) 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.

Operational risk is the risk of loss or harm 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

Probability of default (PD) is 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) is an amount expected to be owed by an obligor at the time of default.

Loss given default (LGD) is an estimated percentage of EAD that is not expected to be recovered during the collections and recovery process.

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).

Tier 1 capital primarily consists of CET1 capital 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.

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LAURENTIAN BANK OF CANADA CONSOLIDATED FINANCIAL STATEMENTS

AS AT OCTOBER 31, 2021 AND 2020

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of the Laurentian Bank of Canada is responsible for the integrity and fair presentation of the financial information contained in the Annual Report. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Consolidated Financial Statements also comply with the accounting requirements of the Bank Act.

The Consolidated Financial Statements include amounts that, where necessary, are based on the best estimates and judgment of management. The financial information presented elsewhere in the Annual Report is consistent with that shown 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 audit function periodically assess various aspects of the Bank's operations and make recommendations to management for improvements to the internal control systems.

The Office of the Superintendent of Financial Institutions Canada (OSFI) is mandated to protect the rights and interests of depositor and creditors of the Bank. Accordingly, OSFI examines and enquires into the business and affairs of the Bank, as deemed necessary, to ensure that the provisions of the Bank Act are being complied with and that the Bank is in sound financial position.

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.

Ernst & Young LLP, the independent auditor appointed by the shareholders on recommendation of the Board, audits the Bank's Consolidated Financial Statements and their report follows. The auditor has full and unrestricted access to the Audit Committee to discuss audit and financial reporting matters

Rania Llewellyn

President and
Chief Executive Officer

Yvan Deschamps

Executive Vice President
and Chief Financial Officer

Montréal, Canada

December 9, 2021

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 "Bank" or the "Group"), which comprise the consolidated balance sheets as at October 31, 2021 and October 31, 2020, 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 (collectively referred to as the "consolidated financial statements").

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, 2021 and October 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

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 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the year ended October 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Allowance for credit losses

Key audit matter

As more fully described in Note 3 and Note 6 to the consolidated financial statements, the Bank's allowance for credit losses, determined using an expected credit loss (ECL) model, as at October 31, 2021 was $202.6 million. The ECL is an unbiased and probability-weighted amount, which is determined by evaluating a range of possible outcomes and reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions. The Bank applies a three-stage approach to measure the ECL which is based primarily on the product of the loan's probability of default (PD), loss given default (LGD) and exposure at default (EAD). In establishing ECL, the Bank incorporates three forward-looking macroeconomic scenarios, which represent the Bank's view of a range of possible economic outcomes – a base case scenario being the Bank's view of the most probable outcome, as well as an upside scenario and a downside scenario. Where there has been a significant increase in credit risk, lifetime ECL is recorded; otherwise 12 months of ECL is generally recorded. The significant increase in credit risk (SICR) assessment is based on the change in PD between the origination date and reporting date and is assessed using relative and absolute thresholds.

Auditing the allowance for credit losses was complex and required the involvement of specialists due to the inherent complexity of the models, the forward-looking nature of key assumptions, and the inherent interrelationship of the critical variables used in measuring the ECL. Key areas of judgement included evaluating: (i) the models and methodologies used for measuring both the 12-month and lifetime expected credit losses; (ii) the determination of SICR; (iii) the assumptions used in the macroeconomic scenarios including forward-looking information (FLI) and assigning probability weighting; and (iv) the application of management's experienced credit judgment to adjust the modeled ECL results when known or expected risk factors were not considered in the credit risk rating and modelling process.

How our audit addressed the key audit matter

To test the allowance for credit losses, our audit procedures included, among others, involving our credit risk modelling specialists to assess whether the methodology and assumptions used in significant models that estimate the ECL across various portfolios are consistent with the requirements of IFRS and industry standards. This also included an assessment of management's SICR triggers. With the assistance of our economic specialists, we evaluated management's forecasting methodology and compared management's FLI and scenarios' weighting to independently derived forecasts and publicly available information. On a sample basis, we independently recalculated the ECL to test the mathematical accuracy of management's models. We tested the completeness and accuracy of data used in the measurement of the ECL by agreeing those to source systems and related documentation. With the assistance of our credit risk modelling specialists, we also evaluated management's methodology and governance over the application of management's experienced credit judgment by evaluating that the amounts recorded were reflective of underlying credit quality and macroeconomic trends, including the impact of COVID-19. Finally, we reviewed the adequacy of the financial statement note disclosures in relation to this matter.

Impairment of the Personal Banking cash-generating unit (CGU)

Key audit matter

As more fully described in Note 3 and Note 10 to the consolidated financial statements, the goodwill that was allocated to the Bank's Personal Banking CGU before the impairment charge of $93.4 million recorded during the fiscal year ended October 31, 2021 was $34.9 million. Management conducts an impairment test as of August 1 of each year by comparing the carrying value of each CGU to its recoverable amount. For the Personal Banking CGU, management calculated the recoverable amount using a value in use approach that was primarily based on the four-year business plan, adjusted by management to exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance and to align projections with past actual outcomes. Cash flows beyond the initial 4-year period are assumed by management to increase at a constant rate using a nominal long-term growth rate. As disclosed by management, the determination of the value in use model requires a number of significant estimates, including projected net income growth rates, terminal growth rate, and the discount rate of future cash flows to determine the recoverable amount of the CGU. As a result of the impairment test, management allocated $34.9 million of impairment to the CGU's goodwill, $52.7 million to software and intangible assets and $5.8 million to premises and equipment of the CGU.

Auditing the goodwill impairment assessment of the Personal Banking CGU required the involvement of specialists and a high degree of auditor judgement due to the subjectivity of the significant estimates, which are described above, used by management to determine the recoverable amount of the Personal Banking CGU using a value in use approach.

How our audit addressed the key audit matter

With the assistance of our valuation specialists, we assessed management's process for determining the recoverable amount of the CGU by evaluating the significant assumptions within the discounted cash flows model, including the discount rate and the terminal growth rate, by comparing management's assumptions to prior year actual results, current industry and economic trends as well as company-specific risk premiums. We tested the reasonableness of projected net income growth rates of the CGU by comparing them to management's strategic plans approved by the Board of Directors and available third party published economic data, industry forecasts and historical trends. We also assessed the historical accuracy of management's prior year estimates by performing a comparison of management's prior year projections to actual results. Finally, we reviewed the adequacy of the financial statement note disclosures in relation to this matter.

Other information included in the Group's 2021 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 & 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. 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 IFRSs, 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.

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:

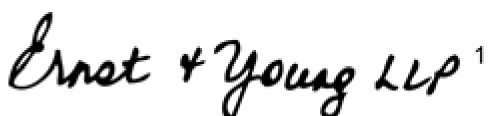
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Michel Bergeron.



[1]FCPA auditor, FCA, public accountancy permit no A114960

Montréal, Canada
December 9, 2021

CONSOLIDATED BALANCE SHEET

As at October 31 (in thousands of Canadian dollars)	Notes	2021	2020
Assets			
Cash and non-interest bearing deposits with banks		$ 69,002	$ 69,661
Interest-bearing deposits with banks		598,121	603,181
Securities	5 and 7		
At amortized cost		3,189,455	3,109,698
At fair value through profit or loss (FVTPL)		3,050,658	2,414,939
At fair value through other comprehensive income (FVOCI)		259,080	274,579
		6,499,193	5,799,216
Securities purchased under reverse repurchase agreements		2,764,281	3,140,228
Loans	6 and 7		
Personal		3,681,341	4,120,875
Residential mortgage		15,856,999	16,341,890
Commercial		14,106,423	12,730,360
		33,644,763	33,193,125
Allowances for loan losses		(195,056)	(173,522)
		33,449,707	33,019,603
Other			
Derivatives	25	263,014	295,122
Premises and equipment	8	100,576	199,869
Software and other intangible assets	9	278,295	380,259
Goodwill	10	78,429	117,286
Deferred tax assets	19	58,492	62,216
Other assets	11	917,914	481,019
		1,696,720	1,535,771
		$ 45,077,024	$ 44,167,660
Liabilities and shareholders' equity			
Deposits	12		
Personal		$ 18,151,044	$ 18,796,150
Business, banks and other		4,837,185	5,124,053
		22,988,229	23,920,203
Other			
Obligations related to securities sold short		3,251,682	3,020,709
Obligations related to securities sold under repurchase agreements		2,771,474	2,411,649
Derivatives	25	153,069	127,412
Deferred tax liabilities	19	48,244	55,333
Other liabilities	13 and 29	1,618,144	1,487,174
		7,842,613	7,102,277
Debt related to securitization activities	7 and 14	11,255,530	10,184,497
Subordinated debt	15	349,782	349,442
Shareholders' equity			
Preferred shares	16	122,071	244,038
Limited recourse capital notes	16	123,612	—
Common shares	16	1,172,722	1,159,488
Retained earnings		1,195,264	1,152,973
Accumulated other comprehensive income		23,534	52,215
Share-based compensation reserve	17	3,667	2,527
		2,640,870	2,611,241
		$ 45,077,024	$ 44,167,660

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

Michael Mueller
Chairman of the Board

Rania Llewellyn
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

For the years ended October 31 (in thousands of Canadian dollars, except per share amounts)	Notes		2021		2020
Interest and dividend income	26				
Loans		$	1,118,161	$	1,288,850
Securities			45,661		57,798
Deposits with banks			1,821		4,294
Other, including derivatives			87,672		71,311
			1,253,315		1,422,253
Interest expense	26				
Deposits			364,291		532,062
Debt related to securitization activities			175,964		179,930
Subordinated debt			15,208		15,222
Other, including derivatives			5,511		12,615
			560,974		739,829
Net interest income			692,341		682,424
Other income					
Lending fees			69,446		62,595
Fees and securities brokerage commissions			64,226		48,030
Commissions from sales of mutual funds			49,088		42,985
Service charges			30,746		33,733
Income from financial instruments	26		29,590		33,728
Card service revenues			27,342		28,438
Fees on investment accounts			15,509		16,350
Insurance income, net	27		10,219		11,148
Other	28		13,950		11,578
			310,116		288,585
Total revenue			1,002,457		971,009
Amortization of net premium on purchased financial instruments	3.4		—		638
Provision for credit losses	6		49,500		116,300
Non-interest expenses					
Salaries and employee benefits	17 and 18		370,400		370,535
Premises and technology	8		193,005		200,529
Other	9		125,113		144,434
Impairment and restructuring charges	30		191,844		18,289
			880,362		733,787
Income before income taxes			72,595		120,284
Income taxes	19		15,526		6,199
Net income		$	57,069	$	114,085
Preferred share dividends and limited recourse capital note interest	16		12,265		12,466
Net income available to common shareholders		$	44,804	$	101,619
Earnings per share	20				
Basic		$	1.03	$	2.37
Diluted		$	1.03	$	2.37
Dividends per common share		$	1.60	$	2.14

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended October 31 (in thousands of Canadian dollars)	2021	2020
Net income	**$ 57,069**	$ 114,085
Other comprehensive income, net of income taxes		
Items that may subsequently be reclassified to the Consolidated Statement of Income		
Net change in debt securities at FVOCI		
Unrealized net gains (losses) on debt securities at FVOCI	**(1,271)**	1,559
Reclassification of net gains on debt securities at FVOCI to net income	**(235)**	(103)
	(1,506)	1,456
Net change in value of derivatives designated as cash flow hedges	**(1,498)**	22,544
Net foreign currency translation adjustments		
Net unrealized foreign currency translation gains (losses) on investments in foreign operations	**(35,949)**	5,005
Net gains on hedges of investments in foreign operations	**10,272**	2,263
	(25,677)	7,268
	(28,681)	31,268
Items that may not subsequently be reclassified to the Consolidated Statement of Income		
Remeasurement gains (losses) on employee benefit plans	**30,877**	(5,420)
Net gains (losses) on equity securities designated at FVOCI	**39,050**	(6,008)
	69,927	(11,428)
Total other comprehensive income, net of income taxes	**41,246**	19,840
Comprehensive income	**$ 98,315**	$ 133,925

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)	2021	2020
Net change in debt securities at FVOCI		
Unrealized net gains (losses) on debt securities at FVOCI	**$ (558)**	$ 543
Reclassification of net gains on debt securities at FVOCI to net income	**(85)**	(37)
	(643)	506
Net change in value of derivatives designated as cash flow hedges	**(543)**	8,094
Net foreign currency translation adjustments		
Net gains on hedges of investments in foreign operations	**(159)**	(320)
Remeasurement gains (losses) on employee benefit plans	**11,119**	(2,005)
Net gains (losses) on equity securities designated at FVOCI	**14,108**	(2,169)
	$ 23,882	$ 4,106

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended October 31, 2021

(in thousands of Canadian dollars)	Preferred shares (Note 16)	Limited recourse capital notes (Note 16)	Common shares (Note 16)	Retained earnings	Accumulated other comprehensive income: Debt securities at FVOCI	Cash flow hedges	Translation of foreign operations	Total	Share-based compen-sation reserve	Total shareholders' equity
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
Net income				57,069						57,069
Other comprehensive income, net of income taxes										
Unrealized net losses on debt securities at FVOCI					(1,271)			(1,271)		(1,271)
Reclassification of net gains on debt securities at FVOCI to net income					(235)			(235)		(235)
Net change in value of derivatives designated as cash flow hedges						(1,498)		(1,498)		(1,498)
Net unrealized foreign currency translation losses on investments in foreign operations							(35,949)	(35,949)		(35,949)
Net gains on hedges of investments in foreign operations							10,272	10,272		10,272
Remeasurement gains on employee benefit plans				30,877						30,877
Net gains on equity securities designated at FVOCI				39,050						39,050
Comprehensive income				126,996	(1,506)	(1,498)	(25,677)	(28,681)		98,315
Issuance of share capital			13,234							13,234
Issuance of limited recourse capital notes		123,612								123,612
Repurchase of share capital	(121,967)			(3,033)						(125,000)
Share-based compensation									1,140	1,140
Dividends and other										
Preferred shares and limited recourse capital notes				(12,265)						(12,265)
Common shares				(69,407)						(69,407)
Balance as at October 31, 2021	$ 122,071	$ 123,612	$ 1,172,722	$ 1,195,264	$ 278	$ 42,095	$ (18,839)	$ 23,534	$ 3,667	$ 2,640,870

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

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

For the year ended October 31, 2020

(in thousands of Canadian dollars)	Preferred shares (Note 16)	Common shares (Note 16)	Retained earnings	Accumulated Other Comprehensive Income				Share-based compen-sation reserve	Total shareholders' equity
				Debt securities at FVOCI	Cash flow hedges	Translation of foreign operations	Total		
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			(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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended October 31 (in thousands of Canadian dollars)	Notes	2021	2020
Cash flows relating to operating activities			
Net income		**$ 57,069**	$ 114,085
Adjustments to determine net cash flows relating to operating activities:			
Provision for credit losses	6	**49,500**	116,300
Deferred income taxes	19	**(22,057)**	(17,881)
Impairment of goodwill, software and intangible assets, and premises and equipment	8, 9 and 10	**163,279**	3,765
Depreciation of premises and equipment	8	**22,013**	24,058
Amortization of software and other intangible assets	9	**39,504**	41,590
Change in operating assets and liabilities:			
Loans		**(495,352)**	434,717
Acceptances		**—**	(319,992)
Securities at FVTPL		**(635,719)**	827,207
Securities purchased under reverse repurchase agreements		**375,947**	(601,943)
Accrued interest receivable		**5,138**	34,648
Derivative assets		**32,108**	(151,306)
Deposits		**(931,974)**	(1,732,401)
Obligations related to securities sold short		**230,973**	402,562
Obligations related to securities sold under repurchase agreements		**359,825**	(147,234)
Accrued interest payable		**(108,940)**	(13,469)
Derivative liabilities		**25,657**	14,675
Debt related to securitization activities		**1,071,033**	1,271,164
Other, net		**(103,321)**	398,132
		134,683	698,677
Cash flows relating to financing activities			
Payment of lease liabilities		**(19,720)**	(18,553)
Repurchase of preferred shares	16	**(125,000)**	—
Net proceeds from issuance of limited recourse capital notes	16	**123,612**	—
Net proceeds from issuance of common shares	16	**48**	1,591
Dividends and other distributions		**(81,021)**	(106,291)
		(102,081)	(123,253)
Cash flows relating to investing activities			
Change in securities at amortized cost			
Acquisitions		**(2,475,572)**	(3,495,790)
Proceeds on sale and at maturity		**2,395,815**	3,130,965
Change in securities at FVOCI			
Acquisitions		**(997,899)**	(243,517)
Proceeds on sale and at maturity		**1,064,557**	275,577
Proceeds on sale of loan portfolios		**19,529**	54,376
Additions to premises and equipment and software and other intangible assets	8 and 9	**(40,804)**	(41,201)
Change in interest-bearing deposits with banks		**5,060**	(280,284)
		(29,314)	(599,874)
Effect of exchange rate changes on cash and non-interest-bearing deposits with banks		**(3,947)**	3,453
Net change in cash and non-interest bearing deposits with banks		**(659)**	(20,997)
Cash and non-interest bearing deposits with banks at beginning of period		**69,661**	90,658
Cash and non-interest bearing deposits with banks at end of period		**$ 69,002**	$ 69,661
Supplemental disclosure about cash flows relating to operating activities:			
Interest paid during the period		**$ 680,999**	$ 751,742
Interest received during the period		**$ 1,258,841**	$ 1,416,663
Dividends received during the period		**$ 13,067**	$ 14,935
Income taxes paid (received) during the period		**$ 20,196**	$ (14,534)

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

1. GENERAL INFORMATION

Laurentian Bank of Canada (the Bank) provides financial services to its personal, commercial and institutional customers. The Bank operates primarily across Canada, with a presence in the United States. Refer to Note 31 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, 2021 were approved for issuance by the Board of Directors on December 9, 2021.

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. 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.

2.1 ACCOUNTING POLICY CHANGES

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 was effective for annual reporting periods beginning on or after 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 had no significant impact on the Bank's Consolidated Financial Statements as at November 1, 2020.

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

The transition from IBORs to alternative benchmark interest rates will impact financial instruments referencing IBOR rates for terms that extend beyond December 31, 2021 (or June 30, 2023 for certain USD LIBOR settings).

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") which completes its work to amend IFRS in response to the IBOR Reform. The Amendments address the accounting issues that arise when financial instruments that reference IBORs transition to nearly risk-free rates (RFRs), including the effects of changes to contractual cash flows or hedging relationships. The amendments are effective for annual periods beginning on or after January 1, 2021. The Bank early adopted the amendments as at August 1, 2021 and the adoption of the Amendments had no significant impact on the Bank's Consolidated Financial Statements at that date.

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 the Bank's 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 existing contract amendment language. The Bank has in place detailed plans, processes and procedures to support the transition of a significant portion of its IBOR exposure to RFRs during 2022.

The IBOR reform exposes the Bank to various risks, which the project is managing and monitoring closely, including but not limited to conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform and operational risk arising from changes to the Bank's IT systems and processes.

As at October 31, 2021, the Bank had exposure to commercial loans that reference the USD LIBOR expected to expire or mature after June 30, 2023 for an amount of $157.2 million.

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	2021
	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 Covered Bond (Legislative) GP Inc.	Toronto, Canada
LBC Covered Bond (Legislative) Guarantor Limited Partnership[5]	Toronto, Canada
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 77% of voting shares of LBEL Inc. and VRH Canada Inc. holds the remaining 23%.
(4) LBEL Inc. holds 99.99% of the units of LBC Leasing Limited Partnership and LBC Capital GP Inc. holds the remaining 0.01%.
(5) Laurentian Bank of Canada holds 99.95% of the units of LBC Covered Bond (Legislative) Guarantor Limited Partnership, LBC Covered Bond (Legislative) GP Inc. holds 0.0495% of the units and 12815273 Canada Inc. holds the remaining 0.005%.

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 three limited partnerships used for securitization and funding purposes, as shown in the previous table.

2.2 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 are further discussed in the Consolidated Financial Statements as follows:

Fair value of financial instruments	Notes 3 and 22	Post-employment benefits	Notes 3 and 18
Allowances for credit losses	Notes 3 and 6	Income taxes	Notes 3 and 19
Goodwill and other intangible assets	Notes 3, 9 and 10	Provisions and contingent liabilities	Notes 3 and 29

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 COVID-19 pandemic has amplified uncertainty on the assumptions used by management in making its judgments and estimates. The full extent of the impact that the COVID-19 pandemic will have on the Canadian and U.S. economies and the Bank's business continues to be uncertain and difficult to predict.

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, 2021 and October 31, 2020, 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.

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.

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 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, 2021 and October 31, 2020, 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, 2021 and October 31, 2020, the Bank had no loans at FVTPL.

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, 2021 and October 31, 2020, 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 performing 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 performing 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.

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. The full extent of the impact of the COVID-19 pandemic on the Canadian and U.S. economies is still uncertain. Therefore, it remains difficult to predict whether the COVID-19 pandemic may result in significant write-offs in the future, or if the Bank will need to recognize additional increases or release significant portions of its allowances for 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. The allowance for credit losses for off-balance-sheet credit exposures that are not measured at fair value is 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 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.

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.

When the Bank considers that it has retained substantially all the risks and rewards of ownership of the transferred asset, it continues to recognize the financial asset and, if applicable, recognizes a financial liability on the Consolidated Balance Sheet. If, due to a derivative instrument, the transfer of a financial asset does not result in derecognition, the derivative is not recognized on the Consolidated Balance Sheet.

Securitization
The Bank regularly transfers pools of residential mortgage loans 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 and the liabilities for the consideration received from the transfer are recognized in Debt related to securitization activities on the Consolidated Balance Sheet.

In certain securitization transactions, the Bank does not retain substantially all the risks and rewards related to transferred pools of residential mortgage loans. 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 7 and 14 for further details.

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 25 for the years ended October 31, 2021 and 2020 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.

The Bank applies temporary reliefs which enable its hedge accounting to continue during the period of uncertainty, before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. For the purpose of determining whether a forecast transaction is highly probable, the reliefs notably require to assume that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform.

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.

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.

3.2 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 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.

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.

Management assesses at least annually if indicators of impairment exist for its right-of-use assets that generate cash inflows that are largely independent of those from other assets or groups of assets of the Bank. When impairment indicators exist for such right-of-use assets, management compares their carrying value to their recoverable amount, which is determined using a value in use approach based on the expected sublease terms over the remainder of the head-leases. These terms notably include base rent recovery and variable rent recovery, as well as the expected absorption period.

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.

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.

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.

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.

The revaluation of purchased financial instruments that resulted in a gain on acquisition is amortized over the estimated remaining term of the purchased financial instruments on the Amortization of net premium on purchased financial instruments line item.

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. The impairment loss allocated to each asset shall not reduce the carrying amount of assets below its fair value less costs of disposal, its value in use or zero. Impairment losses on goodwill are charged to income in the period they are incurred and are not reversed.

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 9 and 10.

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	Minimum of useful life and term of related leases

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, i.e. 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.

3.7 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.

3.8 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.

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 issuance costs

Incremental costs directly attributable to the issuance 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.

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 IASB 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.

5. SECURITIES

Credit quality

As at October 31, 2021, 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, 2021, allowances for credit losses amounted to $0.2 million ($0.2 million as at October 31, 2020) for debt securities at amortized cost and $0.2 million ($0.2 million as at October 31, 2020) for debt securities at FVOCI.

Securities at amortized cost

	2021	2020
Securities issued or guaranteed		
by Canada[1]	**$ 1,245,547**	$ 1,048,606
by provinces	**1,729,373**	1,550,127
by municipalities	**133,873**	117,993
Other debt securities	**80,662**	392,972
	$ 3,189,455	$ 3,109,698

(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 2021 and 2020, 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 which were at or almost at term, was $996.5 million upon disposal in 2021 ($739.4 million in 2020). The Bank recognized negligible net losses in Income from financial instruments in the Consolidated Statement of Income in 2021 and 2020.

Securities at FVOCI

Accumulated unrealized gains and losses recognized in other comprehensive income are detailed as follows:

				2021
	Amortized cost	**Unrealized gains**	**Unrealized losses**	**Fair value[1]**
Securities issued or guaranteed				
by Canada[2]	**$ 8,028**	**$ —**	**$ 84**	**$ 7,944**
by provinces	**5,845**	**—**	**5**	**5,840**
by municipalities	**31,535**	**207**	**2**	**31,740**
Other debt securities	**14,347**	**365**	**4**	**14,708**
Asset-backed securities	**407**	**5**	**—**	**412**
Preferred shares	**161,623**	**18,441**	**797**	**179,267**
Common shares and other securities	**13,405**	**5,835**	**71**	**19,169**
	$ 235,190	**$ 24,853**	**$ 963**	**$ 259,080**

(1) The allowances for credit losses on debt securities at FVOCI, amounting to $0.2 million as at October 31, 2021 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.

				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

(1) The allowances for credit losses on debt securities at FVOCI, amounting to $0.2 million as at October 31, 2020 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.

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.

Dividend income recognized in earnings on these investments was $8.9 million for the year ended October 31, 2021 ($9.8 million for the year ended October 31, 2020), including a negligible amount for investments that were sold during all such periods.

	2021	2020
Fair value at beginning of year	**$ 170,157**	$ 189,716
Change in fair value	**49,966**	2,407
Designated at FVOCI	**49,838**	43,164
Sales or redemptions	**(71,525)**	(65,130)
Fair value at end of year	**$ 198,436**	$ 170,157

Sales of equity securities designated at FVOCI in 2021 and 2020 were driven by asset allocation decisions and outlook assessments. The cumulative net gain realized as a result of the sale of these securities amounted to $3.3 million in 2021 (cumulative net loss of $10.6 million in 2020).

Refer to Note 22 for additional information on the determination of fair value of securities.

6. LOANS AND ALLOWANCES FOR CREDIT LOSSES

As at October 31, 2021 and October 31, 2020, 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.

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

There is considerable judgment involved in the estimation of credit losses in the current environment. The ultimate impact of the COVID-19 pandemic will depend on vaccination adoption rates worldwide and the extent to which vaccines will be effective at controlling both existing and emerging variants of the virus, and the ability of governments, businesses and health-care systems to effectively limit the impacts of expected resurgences of the virus, including variants thereof, without resorting to broad economic closures. The extent to which public health measures restrict economic activity are material to the Bank's evaluation of the evolving macroeconomic environment and the resulting allowances for credit losses. Actual credit losses could differ materially from those reflected in the Bank's estimates.

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 BBB-	AAA to BBB (low)	Very low risk
8-10	0.54-2.28	BB+ to B+	BB (high) to B (high)	Low risk
11-13	2.29-9.91	B to B-	B to B (low)	Medium risk
14-16	9.92-99.99	CCC+ to CCC-	CCC (high) to CCC (low)	High risk
17-19	100	CC/C/D	CC/C/D	Default

Credit risk exposure

The following table shows the gross and net carrying amounts of loans and acceptances and off-balance sheet exposures as at October 31, 2021 and October 31, 2020, according to credit quality and ECL impairment stage of each loan category at amortized cost.

	2021				2020			
	Performing		**Impaired**		Performing		Impaired	
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Personal loans								
Very low risk	**$ 2,788,385**	**$ 596**	**$ —**	**$ 2,788,981**	$ 2,931,558	$ 9,080	$ —	$ 2,940,638
Low risk	**337,546**	**98,748**	**—**	**436,294**	445,747	104,585	—	550,332
Medium risk	**191,675**	**235,612**	**—**	**427,287**	331,779	246,309	—	578,088
High risk	**—**	**12,578**	**—**	**12,578**	—	15,712	—	15,712
Default	**—**	**—**	**16,201**	**16,201**	—	—	36,105	36,105
Gross carrying amount	**3,317,606**	**347,534**	**16,201**	**3,681,341**	3,709,084	375,686	36,105	4,120,875
Allowances for loan losses	**8,432**	**35,183**	**9,471**	**53,086**	6,996	17,330	17,212	41,538
Net carrying amount	**$ 3,309,174**	**$ 312,351**	**$ 6,730**	**$ 3,628,255**	$ 3,702,088	$ 358,356	$ 18,893	$ 4,079,337
Residential mortgage loans								
Very low risk	**$ 10,867,771**	**$ 51**	**$ —**	**$10,867,822**	$10,008,099	$ 103,223	$ —	$10,111,322
Low risk	**2,837,423**	**38,733**	**—**	**2,876,156**	3,225,724	178,993	—	3,404,717
Medium risk	**1,650,657**	**332,921**	**—**	**1,983,578**	1,914,807	722,156	—	2,636,963
High risk	**—**	**71,251**	**—**	**71,251**	—	123,042	—	123,042
Default	**—**	**—**	**58,192**	**58,192**	—	—	65,846	65,846
Gross carrying amount	**15,355,851**	**442,956**	**58,192**	**15,856,999**	15,148,630	1,127,414	65,846	16,341,890
Allowances for loan losses	**6,506**	**4,689**	**4,209**	**15,404**	5,158	5,001	3,605	13,764
Net carrying amount	**$ 15,349,345**	**$ 438,267**	**$ 53,983**	**$15,841,595**	$15,143,472	$ 1,122,413	$ 62,241	$16,328,126
Commercial loans								
Very low risk	**$ 3,106,102**	**$ 28,029**	**$ —**	**$ 3,134,131**	$ 2,506,784	$ 32,093	$ —	$ 2,538,877
Low risk	**7,961,225**	**59,468**	**—**	**8,020,693**	6,768,408	186,369	—	6,954,777
Medium risk	**2,336,298**	**304,990**	**—**	**2,641,288**	2,630,411	309,950	—	2,940,361
High risk	**—**	**133,794**	**—**	**133,794**	—	125,559	—	125,559
Default	**—**	**—**	**176,517**	**176,517**	—	—	170,786	170,786
Gross carrying amount	**13,403,625**	**526,281**	**176,517**	**14,106,423**	11,905,603	653,971	170,786	12,730,360
Allowances for loan losses	**40,358**	**12,896**	**73,312**	**126,566**	44,712	17,890	55,618	118,220
Net carrying amount	**$ 13,363,267**	**$ 513,385**	**$ 103,205**	**$13,979,857**	$11,860,891	$ 636,081	$ 115,168	$12,612,140
Total loans								
Gross carrying amount	**$ 32,077,082**	**$ 1,316,771**	**$ 250,910**	**$33,644,763**	$30,763,317	$ 2,157,071	$ 272,737	$33,193,125
Allowances for loan losses	**55,296**	**52,768**	**86,992**	**195,056**	56,866	40,221	76,435	173,522
Net carrying amount	**$ 32,021,786**	**$ 1,264,003**	**$ 163,918**	**$33,449,707**	$30,706,451	$ 2,116,850	$ 196,302	$33,019,603
Off-balance sheet exposures[1]								
Very low risk	**$ 1,002,461**	**$ 414**	**$ —**	**$ 1,002,875**	$ 1,345,872	$ 28,402	$ —	$ 1,374,274
Low risk	**1,333,287**	**23,440**	**—**	**1,356,727**	1,374,916	53,877	—	1,428,793
Medium risk	**429,430**	**56,673**	**—**	**486,103**	459,632	43,183	—	502,815
High risk	**—**	**6,771**	**—**	**6,771**	—	7,527	—	7,527
Default	**—**	**—**	**—**	**—**	—	—	—	—
Total exposure	**2,765,178**	**87,298**	**—**	**2,852,476**	3,180,420	132,989	—	3,313,409
Allowances for off-balance sheet exposures losses	**5,775**	**1,747**	**—**	**7,522**	8,324	3,124	—	11,448
Total exposure, net	**$ 2,759,403**	**$ 85,551**	**$ —**	**$ 2,844,954**	$ 3,172,096	$ 129,865	$ —	$ 3,301,961

(1) Including letters of guarantee and certain undrawn amounts under approved credit facilities.

Impaired loans

	2021			2020		
	Gross impaired loans	Allowances against impaired loans	Net impaired loans	Gross impaired loans	Allowances against impaired loans	Net impaired loans
Personal loans	$ 16,201	$ 9,471	$ 6,730	$ 36,105	$ 17,212	$ 18,893
Residential mortgage loans	58,192	4,209	53,983	65,846	3,605	62,241
Commercial loans	176,517	73,312	103,205	170,786	55,618	115,168
	$ 250,910	$ 86,992	$ 163,918	$ 272,737	$ 76,435	$ 196,302

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 mainly through payment deferrals for residential mortgage loans, as well as for 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.

Loans subject to payment relief programs still outstanding amounted to $2.2 million as at October 31, 2021 and consisted of commercial loans ($219.7 million mainly consisting of residential mortgage loans as at October 31, 2020).

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.

	2021			2020		
	1 day-31 days	32 days-90 days	Total	1 day-31 days	32 days-90 days	Total
Personal loans	$ 48,897	$ 19,823	$ 68,720	$ 51,919	$ 20,796	$ 72,715
Residential mortgage loans	131,931	29,925	161,856	172,001	34,298	206,299
	$ 180,828	$ 49,748	$ 230,576	$ 223,920	$ 55,094	$ 279,014

Write-offs

The contractual amount outstanding on financial assets that were written off during the year ended October 31, 2021 and that are still subject to enforcement activity was $8.1 million ($6.2 million for the year ended October 31, 2020).

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.

	2021				2020			
	Performing		Impaired		Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Personal loans								
Balance at beginning of period	$ 8,758	$ 19,532	$ 17,212	$ 45,502	$ 7,297	$ 21,710	$ 4,732	$ 33,739
Transfers:								
to Stage 1	6,358	(5,272)	(1,086)	—	7,310	(7,160)	(150)	—
to Stage 2	(887)	3,001	(2,114)	—	(886)	1,266	(380)	—
to Stage 3	(134)	(890)	1,024	—	(406)	(1,642)	2,048	—
Originations	928	—	—	928	1,609	—	—	1,609
Derecognitions	(862)	(2,733)	(9,103)	(12,698)	(692)	(2,706)	(2,210)	(5,608)
Net remeasurement of allowances	(4,600)	22,913	20,563	38,876	(5,474)	8,064	28,222	30,812
Provision for (reversal of) credit losses	803	17,019	9,284	27,106	1,461	(2,178)	27,530	26,813
Write-offs	—	—	(25,924)	(25,924)	—	—	(19,998)	(19,998)
Recoveries	—	—	9,784	9,784	—	—	5,833	5,833
Foreign exchange and other	—	—	(885)	(885)	—	—	(885)	(885)
Balance at end of period	$ 9,561	$ 36,551	$ 9,471	$ 55,583	$ 8,758	$ 19,532	$ 17,212	$ 45,502
Total allowances for loan losses	$ 8,432	$ 35,183	$ 9,471	$ 53,086	$ 6,996	$ 17,330	$ 17,212	$ 41,538
Total allowances for off-balance sheet exposures	1,129	1,368	—	2,497	1,762	2,202	—	3,964
Total allowances for credit losses	$ 9,561	$ 36,551	$ 9,471	$ 55,583	$ 8,758	$ 19,532	$ 17,212	$ 45,502
Residential mortgage loans								
Balance at beginning of period	$ 5,401	$ 5,048	$ 3,605	$ 14,054	$ 2,032	$ 1,824	$ 1,050	$ 4,906
Transfers:								
to Stage 1	3,165	(2,256)	(909)	—	1,202	(731)	(471)	—
to Stage 2	(917)	1,507	(590)	—	(565)	691	(126)	—
to Stage 3	(133)	(536)	669	—	(128)	(115)	243	—
Originations	2,576	—	—	2,576	1,359	—	—	1,359
Derecognitions	(1,539)	(1,210)	(1,526)	(4,275)	(393)	(373)	(373)	(1,139)
Net remeasurement of allowances	(1,976)	2,154	5,733	5,911	1,979	3,752	6,991	12,722
Provision for (reversal of) credit losses	1,176	(341)	3,377	4,212	3,454	3,224	6,264	12,942
Write-offs	—	—	(2,733)	(2,733)	—	—	(4,271)	(4,271)
Recoveries	—	—	1,271	1,271	—	—	2,090	2,090
Foreign exchange and other	—	—	(1,311)	(1,311)	(85)	—	(1,528)	(1,613)
Balance at end of period	$ 6,577	$ 4,707	$ 4,209	$ 15,493	$ 5,401	$ 5,048	$ 3,605	$ 14,054
Total allowances for loan losses	$ 6,506	$ 4,689	$ 4,209	$ 15,404	$ 5,158	$ 5,001	$ 3,605	$ 13,764
Total allowances for off-balance sheet exposures	71	18	—	89	243	47	—	290
Total allowances for credit losses	$ 6,577	$ 4,707	$ 4,209	$ 15,493	$ 5,401	$ 5,048	$ 3,605	$ 14,054
Commercial loans								
Balance at beginning of period	$ 51,031	$ 18,765	$ 55,618	$ 125,414	$ 24,160	$ 8,828	$ 35,160	$ 68,148
Transfers:								
to Stage 1	4,179	(3,889)	(290)	—	2,117	(1,231)	(886)	—
to Stage 2	(2,111)	2,877	(766)	—	(3,084)	4,310	(1,226)	—
to Stage 3	(306)	(1,789)	2,095	—	(396)	(2,767)	3,163	—
Originations	12,179	—	—	12,179	14,377	—	—	14,377
Derecognitions	(16,503)	(6,775)	(5,379)	(28,657)	(6,934)	(3,868)	(7,113)	(17,915)
Net remeasurement of allowances	(3,181)	4,233	33,608	34,660	20,922	13,659	45,502	80,083
Provision for (reversal of) credit losses	(5,743)	(5,343)	29,268	18,182	27,002	10,103	39,440	76,545
Write-offs	—	—	(11,329)	(11,329)	—	—	(17,855)	(17,855)
Recoveries	—	—	2,231	2,231	—	—	1,272	1,272
Foreign exchange and other	(355)	(165)	(2,476)	(2,996)	(131)	(166)	(2,399)	(2,696)
Balance at end of period	$ 44,933	$ 13,257	$ 73,312	$ 131,502	$ 51,031	$ 18,765	$ 55,618	$ 125,414
Total allowances for loan losses	$ 40,358	$ 12,896	$ 73,312	$ 126,566	$ 44,712	$ 17,890	$ 55,618	$ 118,220
Total allowances for off-balance sheet exposures	4,575	361	—	4,936	6,319	875	—	7,194
Total allowances for credit losses	$ 44,933	$ 13,257	$ 73,312	$ 131,502	$ 51,031	$ 18,765	$ 55,618	$ 125,414
Total exposure								
Total allowances for loan losses	$ 55,296	$ 52,768	$ 86,992	$ 195,056	$ 56,866	$ 40,221	$ 76,435	$ 173,522
Total allowances for off-balance sheet exposures	5,775	1,747	—	7,522	8,324	3,124	—	11,448
Total allowances for credit losses	$ 61,071	$ 54,515	$ 86,992	$ 202,578	$ 65,190	$ 43,345	$ 76,435	$ 184,970

Main macroeconomic factors

The following tables show the main macroeconomic factors used to estimate the collective allowances for credit losses as at October 31, 2021 and as at October 31, 2020.

						2021
	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	**3.8%**	**4.8%**	**5.8%**	**4.9%**	**1.3%**	**5.4%**
Average unemployment rate (percentage points)	**6.5**	**5.6**	**5.8**	**4.9**	**8.6**	**7.3**
Housing price index growth	**2.6%**	**4.6%**	**4.6%**	**5.4%**	**(3.0)%**	**4.6%**
S&P/TSX index growth[3]	**8.4%**	**8.7%**	**10.2%**	**8.4%**	**(1.9)%**	**16.3%**

						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%

(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 of 24 months for growth indicators and average unemployment rate over the remaining forecast period of 24 months. These factors are used for Stage 2 and Stage 3 ECL calculations.
(3) Main stock index in Canada.

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 constructive path toward the endemic phase in mid-2022 continues. In North America, the delta-driven wave and global supply disruptions briefly slow the pace of economic recovery and lead to a Consumer Price Index (CPI) inflation peak in late 2021. Economic momentum remains positive due to elevated vaccination rates, allowing governments to ease restrictions further. Consumers spend a moderate fraction of accumulated savings and further re-orient spending toward services, easing current inflationary pressures during 2022. Federal emergency income support ends with no major financial friction due to progress in labour market conditions and stronger household balance sheets. Confident businesses strongly invest in machinery and equipment due to capacity limits. Immigration continues to improve and unemployment falls further, contributing to dynamic housing market conditions. North American central banks withdraw stimulus by reducing asset purchase programs during the first half of 2022, followed by policy rate liftoffs during the second part of 2022.

In the downside scenario, the delta-driven wave worsens in late 2021 and global supply disruptions and commodity shortages exacerbate. Governments take a pause in reopening plans. A brief period of stagnant economic growth occurs, and CPI inflation soars to multi-decade highs in late 2021. Market-based inflation expectations and more aggressive withdrawal of monetary policy lead bond yields to rise sharply to multi-year highs in late 2021. Additional companies report supply chain disruptions and erosion in profit margins, leading to a correction in equity markets. Households experience a significant deterioration in purchasing power, unemployment briefly increases and housing market conditions slow markedly, leading governments to extend emergency income support programs. CPI inflation market concerns and bond yields reverse course during 2022 due to the rapid cooling in real GDP growth. Market risk taking then returns gradually and the endemic phase occurs in late 2022. In 2023, immigration improves and the economic recovery finally becomes solid in 2023.

In the upside scenario, the delta-driven wave quickly ends, and faster vaccination progress occurs in lagging countries. The endemic phase arrives in early 2022 and governments lift all remaining restrictions. Most global supply chain disruptions vanish, diminishing rapidly supply-driven pressures on CPI inflation. Confidence soars and households spend a large fraction of accumulated savings, boosting demand-driven CPI inflation, while businesses heavily invest in machinery and equipment due to the bright outlook. Financial markets revise up the corporate earnings outlook, leading to further gains in equities. Strong immigration in part eases labour shortages, unemployment falls and housing market conditions are very tight. Central banks are forced to withdraw stimulus at a faster pace, including policy rate liftoffs in mid-2022.

Sensitivity analysis of allowances for credit losses on performing loans

The following table shows a comparison of the Bank's allowances for credit losses on performing loans (Stages 1 and 2) under IFRS 9 as at October 31, 2021, including off-balance sheet exposures, with the estimated allowances for credit losses that would result if the base scenario was weighted at 100% or if all these performing loans were in Stage 1.

		2021		2020
Allowances for credit losses on performing loans (under IFRS 9)	**$**	**115,586**	$	108,535
Simulations				
100% base scenario	**$**	**80,327**	$	73,289
Performing loans if they were all in Stage 1	**$**	**90,437**	$	81,209

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. The Bank repossessed assets for $1.8 million during the year ($7.1 million in 2020) and foreclosed assets amounted to $5.6 million as at October 31, 2021 ($10.1 million as at October 31, 2020).

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 $60,000 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, 2021, the Bank had provided 1,837 customers with CEBA loans and had funded $102.1 million in loans since the beginning of the program, for an outstanding amount of $96.9 million as at October 31, 2021 (1,671 customers and an outstanding amount of $66.8 million as at October 31, 2020).

Finance lease receivables

The Commercial loans line item includes net investment in leases of $957.7 million as at October 31, 2021 ($961.6 million as at October 31, 2020).

		2021		2020
Minimum lease payments	**$**	**1,033,036**	$	1,041,281
Unguaranteed residual values		**24,305**		27,210
Gross investment in leases		**1,057,341**		1,068,491
Unearned interest income		**(99,636)**		(106,871)
Net investment in leases		**957,705**		961,620
Unamortized deferred costs, security deposits, and other		**12,330**		11,679
	$	**970,035**	$	973,299

Contractual maturities of finance lease receivables

The following table shows information about contractual maturity dates for finance lease receivables.

		2021						2020				
		Gross investment in leases		**Unearned interest income**		**Net investment in leases**		Gross investment in leases		Unearned interest income		Net investment in leases
Receivable within one year	**$**	**379,701**	**$**	**45,108**	**$**	**334,593**	$	389,851	$	48,232	$	341,619
Receivable within 1 to 5 years		**661,669**		**53,955**		**607,714**		664,922		57,965		606,957
Receivable after 5 years		**15,971**		**573**		**15,398**		13,718		674		13,044
	$	**1,057,341**	**$**	**99,636**	**$**	**957,705**	$	1,068,491	$	106,871	$	961,620

7. SECURITIZATION AND STRUCTURED ENTITIES

7.1 TRANSFER OF FINANCIAL ASSETS

The Bank primarily sells residential 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. 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.

As the Bank continues to be exposed to the prepayment, interest rate and/or credit risk associated with the securitized mortgage loans, the Bank retains substantially all risks and rewards related to those financial assets. Therefore, securitized residential mortgage loans remain on balance sheet and are considered pledged assets. The proceeds received are recorded as secured financing on the Debt related to securitization activities line item on the Consolidated Balance Sheet. Other assets required to be maintained for the Bank to participate in the CMB program (Replacement Assets) are also recorded on balance sheet and considered pledged assets.

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. The structured entity has no recourse to other assets of the Bank in the event of failure of debtors to pay when due.

As the Bank provides credit enhancements for these transactions, the Bank retains substantially all risks and rewards related to those financial assets. 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. The proceeds received are recorded as secured financing on the Debt related to securitization activities line item on the Consolidated Balance Sheet.

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.

	2021	2020
Residential mortgage loans	**$ 9,248,259**	$ 8,722,637
Replacement Assets[1]	**735,625**	459,967
Debt related to securitization activities	**$ (10,068,782)**	$ (9,393,861)

(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.

In addition, as at October 31, 2021, the Bank has also securitized other residential mortgage loans for a total amount of $605.4 million ($345.5 million as at October 31, 2020) as part of the NHA MBS program, which were not subsequently sold. The resulting NHA MBS are presented as part of residential mortgage loans. Of these NHA MBS, $111.3 million ($345.5 million as at October 31, 2020) were pledged as collateral with the Bank of Canada, refer to Note 29 for further details.

The following table summarizes the securitization activities carried out by the Bank.

	2021	2020
Carrying amounts of residential mortgage loans transferred during the year related to new financing	**$ 3,165,540**	$ 3,424,296
Carrying amounts of residential mortgage loans transferred during the year as Replacement Assets	**$ 708,077**	$ 976,359

Financial assets qualifying for derecognition

In 2021, the Bank securitized a pool of $19.8 million ($54.2 million in 2020) 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 nil ($1.1 million in 2020) was recognized in the Consolidated Statement of Income under Other income. The securitization retained interest and the servicing liability recorded were not significant.

7.2 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 on the Consolidated Balance Sheet.

Financial assets not qualifying for derecognition and associated financial liabilities

The following table summarizes the carrying amounts of financial assets securitized through structured entities that do not qualify for derecognition and their associated financial liabilities included in the Consolidated Balance Sheet.

		2021		2020
Personal loans	**$**	**1,230,712**	$	1,149,677
Commercial loans[1]		**650,289**		430,782
Debt related to securitization activities	**$**	**(1,186,748)**	$	(790,636)

(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.

		2021		2020
Carrying amounts of personal loans transferred during the year	**$**	**250,001**	$	250,000
Carrying amounts of finance lease receivables transferred during the year	**$**	**361,356**	$	—

7.3 COVERED BONDS

On April 21, 2021, the Bank received approval from Canada Mortgage and Housing Corporation ("CMHC") to establish a $2.0 billion legislative covered bond programme (the "Programme") pursuant to the Canadian Registered Covered Bond Programs Guide, published by CMHC, and, on May 6, 2021, the Bank issued its inaugural $250.0 million covered bonds which bear interest at a rate of 1.603% annually, payable semi-annually. The covered bonds are presented as Deposits on the Bank's Consolidated Balance Sheet.

The Bank will periodically transfer mortgages to LBC Covered Bond (Legislative) Guarantor Limited Partnership (the Guarantor LP) to support funding activities and asset coverage requirements under the Programme. The Guarantor LP was created to guarantee payment of the principal and interest owed to the bondholders. The covered bonds guaranteed by the Guarantor LP are direct, unsecured and unconditional obligations of the Bank; therefore, investors have a claim against the Bank which will continue if the covered bonds are not paid by the Bank and the mortgage assets in the Guarantor LP are insufficient to satisfy the obligations owing on the covered bonds. As at October 31, 2021 the total amount of mortgages outstanding was $359.1 million.

8. PREMISES AND EQUIPMENT

	Right-of-use assets	Premises and leasehold improvements	Equipment and furniture	Computer hardware	Total
Cost					
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)
Impairment	(2,265)	(4,379)	(2,302)	(129)	(9,075)
Impact of foreign currency translation	(6)	—	1	3	(2)
As at October 31, 2020	139,930	100,457	23,558	33,533	297,478
Additions	**12,699**	**1,610**	**231**	**523**	**15,063**
Change in estimates	**(48,245)**	**—**	**—**	**—**	**(48,245)**
Impairment	**(18,609)**	**(42,834)**	**(7,622)**	**(1,368)**	**(70,433)**
Disposals	**(3,096)**	**—**	**—**	**—**	**(3,096)**
Impact of foreign currency translation	**(847)**	**(101)**	**(47)**	**(13)**	**(1,008)**
As at October 31, 2021	**$ 81,832**	**$ 59,132**	**$ 16,120**	**$ 32,675**	**$ 189,759**
Accumulated depreciation					
As at November 1, 2019	$ —	$ 30,782	$ 22,774	$ 25,219	$ 78,775
Depreciation	16,861	5,859	640	1,548	24,908
Disposals	(756)	—	—	—	(756)
Impairment	—	(2,949)	(2,256)	(105)	(5,310)
Impact of foreign currency translation	—	(2)	(2)	(4)	(8)
As at October 31, 2020	16,105	33,690	21,156	26,658	97,609
Depreciation	**14,415**	**5,425**	**573**	**1,600**	**22,013**
Disposals	**(3,096)**	**—**	**—**	**—**	**(3,096)**
Impairment	**—**	**(18,335)**	**(7,550)**	**(1,368)**	**(27,253)**
Impact of foreign currency translation	**(64)**	**(8)**	**(10)**	**(8)**	**(90)**
As at October 31, 2021	**$ 27,360**	**$ 20,772**	**$ 14,169**	**$ 26,882**	**$ 89,183**
Carrying amount					
As at October 31, 2020	$ 123,825	$ 66,767	$ 2,402	$ 6,875	$ 199,869
As at October 31, 2021	**$ 54,472**	**$ 38,360**	**$ 1,951**	**$ 5,793**	**$ 100,576**

Impairment

In 2021, indicators of impairment were identified for the Bank's leased corporate office premises. The Bank compared the carrying value of its right-of-use assets to their recoverable amount, which is determined using a value in use approach based on the expected sublease terms over the remainder of the head-leases. These terms notably include base rent recovery and variable rent recovery, as well as the expected absorption period. As a result, an impairment of premises and equipment amounting to $36.7 million in 2021 (nil in 2020) was recorded on the Impairment and restructuring charges line item related to management's plan to reduce the Bank's leased corporate office premises, refer to Note 30 for further details.

In addition, an impairment of premises and equipment amounting to $5.8 million in 2021 (nil in 2020) was recorded on the Impairment and restructuring charges line item related to the Personal Banking segment's impairment; refer to Notes 10 and 30 for further details.

Other impairment charges amounting to $0.7 million were also recorded in 2021 ($3.8 million in 2020).

The change in estimate related to the right-of-use assets results from the reassessment of whether the Bank is reasonably certain to exercise extension options related to corporate office premises.

9. SOFTWARE AND OTHER INTANGIBLE ASSETS

	Software	Acquisition related intangible assets	Other intangible assets	Total
Cost				
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
Additions	**13,062**	**43**	**12,636**	**25,741**
Impairment	**(48,581)**	**(17,945)**	**(74,053)**	**(140,579)**
Other	**(4)**	**(6,022)**	**—**	**(6,026)**
As at October 31, 2021	**$ 271,472**	**$ 89,614**	**$ 211,828**	**$ 572,914**
Accumulated amortization				
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
Amortization	**16,539**	**12,547**	**10,418**	**39,504**
Impairment	**(35,171)**	**(14,961)**	**(5,201)**	**(55,333)**
Other	**(3)**	**(3,068)**	**—**	**(3,071)**
As at October 31, 2021	**$ 208,706**	**$ 54,489**	**$ 31,424**	**$ 294,619**
Carrying amount				
As at October 31, 2020	$ 79,654	$ 53,567	$ 247,038	$ 380,259
As at October 31, 2021	**$ 62,766**	**$ 35,125**	**$ 180,404**	**$ 278,295**

Acquisition related intangible assets mainly include contractual relationships with advisors and brokers associated to the Personal Banking segment, as well as with vendor-dealers associated to the Commercial Banking segment.

Other intangible assets include assets under development amounting to $47.0 million as at October 31, 2021 ($71.4 million as at October 31, 2020) and are not being amortized. These include developments not completed to the program to implement the Basel Advanced Internal Ratings Based (AIRB) approach to credit risk amounting to $47.0 million as at October 31, 2021 ($52.3 million as at October 31, 2020) and to the core banking system amounting to nil as at October 31, 2021 ($19.1 million as at October 31, 2020).

Software includes $9.2 million pertaining to projects under development yet to be amortized as at October 31, 2021 ($7.4 million as at October 31, 2020).

Impairment

Impairment of software and other assets of $31.5 million in 2021 (nil in 2020) was recorded on the Impairment and restructuring charges line item related to management's decision to cease Phase 2 of the core banking system program; refer to Note 30 for further details. Other impairment charges amounting to $1.0 million were also recorded in 2021 (nil in 2020).

Software and other intangible assets are also 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 as part of the annual impairment test of goodwill.

In 2021, indicators of impairment were identified for the Personal Banking segment's assets as a result of the recent decline in assets and deposit volumes, which, combined with the Bank's limited digital capabilities to support the ongoing changing needs of customers during the pandemic, made it challenging to retain existing customers and acquire net new ones. Management determined that the estimated recoverable amount of the Personal Banking segment was below its carrying amount. Impairment of software and other intangible assets amounting to $52.7 million in 2021 was recorded on on the Impairment and restructuring charges line item related to the Personal Banking segment's impairment; refer to Notes 10 and 30 for further details.

In 2020, indicators of impairment were identified for the Bank's assets as a result of the deterioration in economic conditions caused by the COVID-19 pandemic and the related changes to the interest rate environment. 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 software and other intangible assets was recognized.

Changes in estimates and assumptions could significantly impact the impairment test results. Refer to Note 10 for details.

10. GOODWILL

		Personal Banking		Commercial Banking		Total
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
Impairment		**(34,853)**		**—**		**(34,853)**
Impact of foreign currency translation		—		**(4,004)**		**(4,004)**
As at October 31, 2021	**$**	**—**	**$**	**78,429**	**$**	**78,429**

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.

Goodwill as at October 31, 2021 and 2020 has been allocated to two CGUs, which are also operating segments:

- Personal Banking, which caters to the financial needs of retail clients; and
- Commercial Banking, which encompasses services provided to small and medium-sized enterprises across Canada and the United States.

In 2021, the estimated recoverable amount of the Personal Banking segment was below its carrying amount. A goodwill impairment loss of $34.9 million was recognized in 2021 related to the Personal Banking segment on the Impairment and restructuring charges line-item, refer to Note 30 for further details. In 2020, Management determined that the estimated recoverable amount of the CGUs was in excess of their carrying amounts and no impairment charges were recognized.

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: 1) the forecasts of cash flows based on financial plans approved by the Board of Directors covering a four-year period, adjusted by management to exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance and to align projections with past actual outcomes; 2) a terminal growth rate of 2.0% in 2021 (2.0% in 2020) based on projected economic growth, and; 3) an after-tax discount rate of 9.5% in 2021 (9.0% in 2020) based on the bank-wide cost of capital and further adjusted to reflect the risks specific to the CGUs. If alternative reasonably possible changes in key estimates and assumptions were applied, the result of the impairment test could significantly differ.

11. OTHER ASSETS

		2021		2020
Accounts receivable[1]	**$**	**391,590**	$	35,455
Cheques and other items in transit		**143,371**		133,182
Accrued interest receivable		**77,248**		82,401
Cash reserve deposits		**38,587**		64,132
Defined benefit plan assets (Note 18)		**24,633**		—
Assets under operating leases (Note 28)		**5,700**		9,366
Prepaid expenses and other items		**236,785**		156,483
	$	**917,914**	$	481,019

(1) As at October 31, 2021, allowances for credit losses for accounts receivable amounted to $1.4 million ($1.8 million as at October 31, 2020).

12. DEPOSITS

				2021
	Demand[1]	**Notice[2]**	**Term[3]**	**Total**
Personal	**$ 138,469**	**$ 5,927,684**	**$ 12,084,891**	**$ 18,151,044**
Business, banks and other[4]	**1,274,335**	**461,959**	**3,100,891**	**4,837,185**
	$ 1,412,804	**$ 6,389,643**	**$ 15,185,782**	**$ 22,988,229**

				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

(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 and covered bonds.

(4) The Bank has access to a credit facility agreement for an amount of up to $250 million secured by insured residential mortgage loans and maturing in August 2022, of which nil was drawn as at October 31, 2021 (nil as at October 31, 2020).

13. OTHER LIABILITIES

	2021	2020
Accrued interest payable	**$ 363,532**	$ 472,472
Cheques and other items in transit	**130,911**	132,600
Lease liabilities (Note 29)	**120,141**	160,662
Credit card loyalty points programs liability	**27,244**	25,952
Defined benefit plan liabilities (Note 18)	**20,629**	41,749
Accounts payable, accrued expenses and other items	**955,687**	653,739
	$ 1,618,144	$ 1,487,174

14. DEBT RELATED TO SECURITIZATION ACTIVITIES

	2021	2020
Debt related to CMB and NHA MBS transactions	**$ 10,004,770**	$ 8,982,453
Debt related to securitization activities involving structured entities	**1,186,748**	790,636
Debt related to multi-seller conduits	**64,012**	411,408
	$ 11,255,530	$ 10,184,497

Refer to Note 7 for further details about securitization and structured entities.

15. SUBORDINATED DEBT

Issued and outstanding

Maturity	Interest rate	Earliest par value redemption date		2021 Carrying amount		2020 Carrying amount
June 2027	4.25%	June 22, 2022[1]	$	**350,000**	$	350,000
Unamortized issuance costs				**(218)**		(558)
			$	**349,782**	$	349,442

(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.

16. 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

2021	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
Non-Cumulative Class A Preferred Shares (NVCC) issued and outstanding					
Series 13[4]	**June 15, 2024[5][6]**	**25.00**	**Series 14**	**0.2577[7]**	**2.55 %**
Non-Cumulative Class A Preferred Shares (NVCC) authorized but not issued					
Series 14[4]	**June 15, 2024[5]**	**25.00[8]**	**Series 13**	**Floating rate[9]**	**2.55 %**

(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.

	2021 Number of shares		2021 Amount[1]	2020 Number of shares		2020 Amount[1]
Non-Cumulative Class A Preferred Shares (NVCC)						
Series 13						
Outstanding at beginning and end of period	**5,000,000**	$	**122,071**	5,000,000	$	122,071
Series 15						
Outstanding at beginning of period	**5,000,000**		**121,967**	5,000,000		121,967
Redemption of preferred shares	**(5,000,000)**		**(121,967)**	—		—
Outstanding at end of period	**—**		**—**	5,000,000		121,967
	5,000,000	$	**122,071**	10,000,000	$	244,038

(1) Incremental costs directly attributable to the issuance of preferred shares are recorded in equity as a deduction from the proceeds, net of applicable income taxes.

There were no outstanding Non-Cumulative Class A Preferred Shares, Series 14 as at October 31, 2021 and 2020.

Issuance of treasury shares
On May 7, 2021, in connection with the issuance of Limited Recourse Capital Notes described below, the Bank issued $125.0 million of Non-Cumulative 5-Year Fixed Rate Reset Class A Preferred Shares, Series 17 (Non-Viability Contingent Capital (NVCC)) ("Preferred Shares Series 17") at a price of $1,000 per Preferred Share Series 17. The Preferred Shares Series 17 were issued to a Limited Recourse Trust to be held as trust assets in connection with the Limited Recourse Capital Notes structure. The Preferred Shares Series 17 are treasury shares eliminated on the Bank's consolidated balance sheet prior to a recourse event.

Redemption of preferred shares
On June 15, 2021, the net proceeds from the issuance of Limited Recourse Notes described below were used to redeem the Bank's outstanding 5,000,000 Non-Cumulative Class A Preferred Shares, Series 15 (Non-Viability Contingent Capital (NVCC)), for an aggregate redemption price of $125 million. Share issuance costs of the Preferred Shares Series 15 of $3.0 million that were recorded in equity as a deduction from the proceeds were transferred to retained earnings on redemption.

Limited Recourse Capital Notes

						2021
	Maturity	**Interest rate**	**Earliest par value redemption date[1][2]**		**Redemption price per note ($)[1]**	**Reset premium**
Limited Recourse Capital Notes (NVCC)						
Series 1	**June 15, 2081**	**5.30 %**	**May 15, 2026**	**$**	**1,000**	**4.33 %**

(1) Redeemable in cash at the Bank's option, only upon the redemption by the Bank of the Preferred Shares Series 17 held in the Limited Recourse Trust in accordance with the terms of such Preferred Shares Series 17, and subject to the provisions of the Bank Act and to the prior consent of OSFI.
(2) Redeemable as of the date fixed for redemption during the period from May 15 to and including June 15 and on the same dates every five years thereafter.

Issued and outstanding
The variation and outstanding number and amount of Limited Recourse Capital Notes were as follows.

		2021	2020
		Amount	Amount
Limited Recourse Capital Notes (NVCC)			
Series 1			
Outstanding at beginning of period	**$**	**—**	n/a
Issuance under an offering to accredited investors		**125,000**	n/a
Net issuance costs		**(1,388)**	n/a
Outstanding at the end of period	**$**	**123,612**	n/a

Issuance under an offering to accredited investors
On May 7, 2021, the Bank issued $125.0 million of Limited Recourse Capital Notes, Series 1 (Non-Viability Contingent Capital (NVCC)) (Subordinated Indebtedness) (the "LRCN Series 1"), with recourse limited to assets held by a third party trustee in a bare trust. The trust assets in respect of LRCN Series 1 consist of $125.0 million of the Bank's Preferred Shares Series 17 issued concurrently with LRCN Series 1.

For accounting purposes, the LRCN Series 1 are compound instruments with both equity and liability features. The liability component of the LRCN Series 1 has a nominal value and, as a result, the full proceeds received are presented as equity on the Bank's Consolidated Balance Sheet.

Common shares

Issued and outstanding
The variation and outstanding number and amounts of common shares were as follows.

			2021			2020
	Number of shares		**Amount**	Number of shares		Amount
Common shares						
Outstanding at beginning of year	**43,237,931**	**$**	**1,159,488**	42,624,861	$	1,139,193
Issuance under the employee share purchase option plan	**—**		**—**	1,670		76
Issuance under the Shareholder Dividend Reinvestment and Share Purchase Plan	**348,725**		**13,280**	611,400		18,792
Net issuance costs[1]	**n/a**		**(46)**	n/a		1,427
	43,586,656	**$**	**1,172,722**	43,237,931	$	1,159,488

(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 2021, 348,725 common shares (611,400 in 2020) were legally issued from Corporate Treasury at a 2% discount (2% discount in 2020).

Dividends and other

	2021		2020	
	Dividend per share	**Dividends and other**	Dividend per share	Dividends and other
Preferred share dividends and limited recourse capital note interest				
Preferred shares				
Series 13	**$ 1.03**	**$ 5,154**	$ 1.03	$ 5,153
Series 15	**$ 1.10**	**5,484**	$ 1.46	7,313
		10,638		12,466
Limited recourse capital notes	**n/a**	**1,627**	n/a	—
		$ 12,265		$ 12,466
Common shares	**$ 1.60**	**$ 69,407**	$ 2.14	$ 91,630

On November 2, 2021, the Board of Directors declared regular dividends on the Preferred Shares Series 13 to shareholders of record on December 7, 2021. On December 9, 2021, the Board of Directors declared a dividend of $0.44 per common share, payable on February 1, 2022, to shareholders of record on January 3, 2022.

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.

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 is 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, 2021.

Regulatory capital is detailed below.

	2021	2020
Common shares	**$ 1,172,722**	$ 1,159,488
Retained earnings	**1,195,264**	1,152,973
Accumulated other comprehensive income, excluding cash flow hedge reserve	**(18,561)**	8,622
Share-based compensation reserve	**3,667**	2,527
Transitional arrangements for expected credit losses in response to COVID-19[1]	**19,006**	22,976
Deductions from Common Equity Tier 1 capital[2]	**(333,337)**	(453,507)
Common Equity Tier 1 capital	**2,038,761**	1,893,079
Qualifying preferred shares and limited recourse capital notes	**245,683**	244,038
Total regulatory adjustments to Additional Tier 1 capital	**(1,147)**	—
Additional Tier 1 capital	**244,536**	244,038
Tier 1 capital	**2,283,297**	2,137,117
Qualifying subordinated debt	**349,782**	349,442
Collective allowances	**97,000**	85,978
Deductions from Tier 2 capital[3]	**(74)**	(1,325)
Tier 2 capital	**446,708**	434,095
Total capital	**$ 2,730,005**	$ 2,571,212
Common Equity Tier 1 capital ratio	**10.2 %**	9.6 %
Tier 1 capital ratio	**11.4 %**	10.9 %
Total capital ratio	**13.6 %**	13.1 %

(1) Represents ECL transitional arrangements provided by OSFI in April 2020 to afford financial institutions further flexibility in addressing economic conditions due to COVID-19.
(2) Comprised of deductions for software and other intangible assets, goodwill, pension plan assets and other.
(3) Investments in own Tier 2 capital instruments.

17. SHARE-BASED COMPENSATION

Share purchase option plans

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, 2021 (nil as at October 31, 2020).

Information relating to outstanding number of options under the Old Stock Option Purchase Plan is as follows.

	2021		2020	
	Number of options	**Exercise price**	Number of options	Exercise price
Outstanding at beginning of year	**71,683**	**$ 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**	71,683	$ 38.97
Exercisable at end of year	**53,763**	**$ 38.97**	—	n/a

New Stock Option Plan
In 2019, the Bank established the New Stock Option Plan. 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 390,796 were still available as at October 31, 2021 (660,657 as at October 31, 2020) .

Information relating to outstanding number of options under the New Stock Option Plan is as follows.

	2021		2020	
	Number of options	Weighted-average exercise price	Number of options	Exercise price
Outstanding at beginning of year	**715,646**	**$ 37.28**	375,128	$ 38.97
Granted[1]	**269,861**	**33.13**	622,018	38.11
Forfeited	**(74,178)**	**38.34**	(279,830)	41.37
Exercised[2]	**—**	**—**	(1,670)	38.97
Outstanding at end of year	**911,329**	**$ 37.47**	715,646	$ 37.28
Exercisable at end of year	**—**	**n/a**	—	n/a

(1) Including an adjustment related to a stock option award that was concluded at the end of 2020 and for which the final determination of the number of options and their fair value was finalized in December 2020.
(2) In 2020, 1,670 common shares were issued under the New Stock Option Plan for a cash consideration of $0.1 million as part of a particular agreement with an employee.

Information relating to exercise prices under the New Stock Option Plan is as follows.

	2021	
Exercise price	Number of options outstanding	Weighted-average remaining contractual life (years)
$33.13	**439,117**	**9.1**
$38.97	**217,807**	**7.1**
$43.68	**254,405**	**8.1**
	911,329	**8.4**

Fair value and assumptions related to the stock options valuations
The weighted-average fair value of the fiscal 2021 and 2020 stock option grants was estimated using the following assumptions.

	2021 grant	2020 grants
Weighted-average fair value of options granted	**$ 4.87**	$ 4.80
Share price at grant date	**$ 32.60**	$ 38.11
Risk-free interest rate	**0.62 %**	1.30 %
Expected life of options	**8 years**	8 years
Expected volatility[1]	**24 %**	20 %
Expected dividend yield	**5.40 %**	5.13 %

(1) 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.

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 20% of their annual gross salary. The Bank matches 30% of the employee contribution amount, up to a maximum of $1,500 per year. The Bank's contributions, totaling $0.6 million in 2021 ($0.7 million in 2020), are recognized in salaries and employee benefits.

Share unit plans

The Bank offers a 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 a three-year return on equity measure relative to targets set as part of strategic planning. 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 Bank also offered a Transformation PSU incentive program for certain members of its senior management that was linked to the successful execution of its prior transformation plan. The rights to these PSUs granted at the beginning of 2018 vested after three years and only if the Bank attained certain performance targets at the end of fiscal 2020. These PSUs were settled and no longer exist as of December 2020.

The Bank offers a restricted share unit (RSU) plan to certain members of its management. Rights to the RSUs generally vest ratably over a three-year period or at the end of the three-year period following their award. In addition, for certain members of its senior management and certain employees of the capital markets sector, a portion of their annual bonus were withheld and converted into fully

vested restricted share units payable ratably over three years. All RSUs are cash settled at fair value at the maturity dates. A deferred version of the plan exists under which the participant is paid on termination of employment rather than at the maturity dates.

During the vesting period, under all RSU plans, dividend equivalents accrue to the participants in the form of additional share units.

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.

Units granted under share unit plans

	2021		2020	
	Units granted	**Weighted average fair value per unit**	Units granted	Weighted average fair value per unit
Performance-based share unit plan	**107,848**	**$ 33.12**	113,956	$ 45.70
Restricted share unit plan	**402,824**	**33.97**	225,033	44.94
Deferred share unit plan	**32,173**	**30.77**	34,294	34.71
	542,845	**$ 33.61**	373,283	$ 44.23

Obligations under performance-based share and other plans

	2021	2020
	Number of units	Number of units
Performance-based share unit plan	**368,138**	606,689
Transformation performance-based share unit plan	**—**	25,477
Restricted share unit plan	**786,790**	552,424
Deferred share unit plan	**126,222**	109,404
	1,281,150	1,293,994

The carrying amount of the liability relating to the cash-settled plans was $43.5 million as at October 31, 2021 ($28.4 million as at October 31, 2020). The intrinsic value of the total liability related to fully vested rights and units was $15.6 million as at October 31, 2021 ($14.4 million as at October 31, 2020)

Share-based compensation plans' expense

The following table shows the expense related to share-based compensation plans, net of the effect of related hedging transactions.

	2021	2020
Expense arising from cash-settled share-based compensation transactions	**$ 32,389**	$ (6,975)
Effect of hedges	**(17,546)**	18,991
	$ 14,843	$ 12,016

To reduce 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 25 for further details regarding the hedge of the share-based compensation plan using total return swap contracts.

18. 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 for the assets invested in debt securities. 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 is 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, 2020 for all pension plans. The next required actuarial valuation for funding purposes will be as at December 31, 2021 for all funded plans.

Defined benefit plan obligations

Changes in the present value of the defined benefit obligation are as follows.

	2021		2020	
	Pension plans	**Other plans**	Pension plans	Other plans
Change in defined benefit obligation				
Defined benefit obligation at beginning of year	**$ 632,775**	**$ 24,706**	$ 619,538	$ 24,464
Current service cost	**9,894**	**—**	10,857	—
Past service cost[1]	**143**	**—**	1,267	—
Interest expense	**13,163**	**563**	18,304	621
Benefits paid	**(42,707)**	**(1,016)**	(39,478)	(1,095)
Employee contributions	**432**	**—**	504	—
Settlement related to annuity purchases[2]	**(353,411)**	**—**	—	—
Actuarial losses (gains) arising from changes in economic assumptions	**(40,342)**	**(2,689)**	25,627	716
Actuarial losses (gains) arising from plan experience	**(6,838)**	**(1,261)**	(3,844)	—
Defined benefit obligation at end of year	**$ 213,109**	**$ 20,303**	$ 632,775	$ 24,706

(1) Representing a $0.1 million charge in 2021 ($1.3 million charge in 2020) related to the pension plan of a former member of senior management.
(2) Refer to the Settlement related to annuity purchases section below for further details.

Defined benefit pension plan assets

Changes in fair value of pension plan assets are as follows.

	2021	2020
Change in fair value of pension plan assets		
Fair value of plan assets at beginning of year	**$ 615,732**	$ 609,525
Interest income (at prescribed rate)	**12,964**	17,904
Actuarial gains (losses) arising from the difference between the actual return on plan assets and interest income	**(7,688)**	15,016
Administration costs (other than costs of managing plan assets)	**(1,799)**	(1,483)
Bank contributions	**6,767**	13,744
Employee contributions	**432**	504
Benefits paid	**(42,707)**	(39,478)
Settlement related to annuity purchases[1]	**(346,285)**	—
Fair value of plan assets at end of year	**$ 237,416**	$ 615,732

(1) Refer to the Settlement related to annuity purchases section below for further details.

Reconciliation of the funded status of the benefit plans to the amounts recorded in the Consolidated Financial Statements

	2021		2020	
	Pension plans	**Other plans**	Pension plans	Other plans
Fair value of plan assets	**$ 237,416**	**$ —**	$ 615,732	$ —
Defined benefit obligation	**213,109**	**20,303**	632,775	24,706
Funded status – plan deficit	**24,307**	**(20,303)**	(17,043)	(24,706)
Defined benefit plan assets included in other assets	**24,633**	**—**	—	—
Defined benefit plan liabilities included in other liabilities	**$ 326**	**$ 20,303**	$ 17,043	$ 24,706

Defined benefit plan costs recognized during the year

	2021		2020	
	Pension plans	**Other plans**	Pension plans	Other plans
Amounts recognized in income				
Current service cost	$ 9,894	$ —	$ 10,857	$ —
Past service cost[1]	143	—	1,267	—
Administration costs (other than costs of managing plan assets)	1,799	—	1,483	—
Interest expense	13,163	563	18,304	621
Interest income (at prescribed rate)	(12,964)	—	(17,904)	—
Loss (gain) on short-term employee benefits	—	(1,446)	—	58
Settlement gain, net[2]	(7,126)	—	—	—
	4,909	(883)	14,007	679
Amounts recognized in other comprehensive income				
Actuarial losses (gains) on defined benefit obligation	(47,180)	(2,504)	21,783	658
Actuarial losses (gains) on plan assets	7,688	—	(15,016)	—
	(39,492)	(2,504)	6,767	658
Total defined benefit cost (gain)	$ (34,583)	$ (3,387)	$ 20,774	$ 1,337

(1) Representing a $0.1 million charge in 2021 ($1.3 million charge in 2020) related to the pension plan of a former member of senior management.
(2) Refer to the Settlement related to annuity purchases section below for further details.

The Bank expects to contribute $8.2 million to its defined benefit pension plans for the year ending October 31, 2022.

Asset allocation of defined benefit pension plans

	2021	2020
Asset category		
Cash and cash equivalents[1]	$ 955	$ 5,518
Equity funds		
Canada	25,043	25,467
United States	6,621	3,819
Other	31,451	33,486
Debt securities		
Canadian governments and other public administrations	22,723	53,687
Corporate and other	75,001	418,100
Other[2]	75,622	75,655
	$ 237,416	$ 615,732

(1) Cash and cash equivalents consist of mainly Canada and U.S. treasury bills.
(2) Other assets are mainly composed of investments in real estate, agricultural businesses and infrastructure.

Equity funds included $0.1 million in equity securities of the Bank as at October 31, 2021 ($0.2 million as at October 31, 2020). As at October 31, 2021 and 2020, none of the plan assets were quoted in active markets.

Significant assumptions for pension plans and other plans

	2021	2020
Weighted-average of assumptions to determine benefit obligation		
Discount rate at end of year	3.37 %	2.71 %
Rate of compensation increase	2.75 %	2.75 %
Weighted-average of assumptions to determine benefit expense		
Discount rate - Current service	2.95 %	3.08 %
Discount rate - Interest expenses (income), net	2.71 %	3.01 %
Rate of compensation increase	2.75 %	2.75 %

For 2021, the weighted-average financial duration of the pension plans was approximately 17.6 years (14.0 years for 2020). The weighted-average financial durations of the other group plans were approximately 6.4 years for the post-employment benefits (5.7 years for 2020) and 9.3 years for the other retirement benefits (11.1 years for 2020).

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

	2021	2020
Assumed annual rate of increase in the cost of health care benefits	**4.62 %**	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, 2021.

	Impact of a potential change of 0.25% to the discount rate on[1]	
	Obligation	**Expense**
Pension plans	**$ 10,019**	**$ 1,098**
Other plans	**$ 458**	**$ 8**

(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, 2021, with all other assumptions remaining constant.

	1% increase	**1% decrease**
Increase (decrease) in total of service and interest expense	**$ 92**	**$ (80)**
Increase (decrease) in defined benefit obligation	**$ 972**	**$ (842)**

Expense for post-employment benefits

The total expense recognized for post-employment benefit plans was as follows:

	2021	2020
Defined benefit pension plans[1]	**$ 12,035**	$ 14,007
Settlement gain, net[2]	**(7,126)**	—
Defined contribution pension plans	**8,306**	8,034
Other plans	**(883)**	679
	$ 12,332	$ 22,720

(1) Including a $0.1 million charge in 2021 ($1.3 million charge in 2020) related to the pension plan of a former member of senior management.
(2) Refer to the Settlement related to annuity purchases section below for further details.

Settlement related to annuity purchases

On June 10, 2021, to reduce its defined benefit pension plan obligation and decrease future pension volatility and risks, the Bank purchased $346.2 million of group annuity contracts from a Canadian insurer and transferred $353.4 million in obligations, resulting in a $7.3 million settlement gain ($7.1 million net of related costs). Under the agreement, the Canadian insurer issued annuities covering the responsibility for pension benefits owed to approximately 1,900 Laurentian Bank of Canada pensioners. The insurer began administering all benefits for these members in October 2021. Following the transaction, benefits for plan participants are protected under Assuris, the life insurance compensation association designated under the Insurance Companies Act of Canada.

The Bank considers, for accounting purposes, that this buy-out transaction essentially eliminates any further legal or constructive obligation for benefits, provided that, the combined risk: i) that the Canadian insurer goes bankrupt; and ii) that the Bank would be responsible for paying the portion of pensions not covered by Assuris should the Canadian insurer go bankrupt, is remote. Accordingly, the Bank considers that a settlement occurred.

19. INCOME TAXES

Deferred income taxes

Significant components of the Bank's deferred income tax assets and liabilities are as follows.

		2021		2020
Deferred income tax assets				
Allowances for loan losses	**$**	**34,439**	$	41,551
Non-capital losses		**33,661**		30,728
Lease liabilities		**32,452**		43,736
Deferred revenues		**11,992**		11,929
Amount related to share-based payments		**10,710**		7,286
Provisions		**9,371**		9,467
Defined benefit plan liabilities		**—**		11,053
Premises and equipment		**7,886**		2,572
Other temporary differences		**6,024**		6,492
		146,535		164,814
Deferred income tax liabilities				
Leases		**65,715**		50,576
Other intangible assets		**26,775**		35,279
Deferred charges		**15,568**		16,387
Right-of-use assets		**14,487**		33,057
Derivatives		**6,223**		15,802
Software		**4,312**		6,606
Defined benefit plan liabilities		**1,058**		—
Other temporary differences		**2,149**		224
		136,287		157,931
Deferred income taxes, net	**$**	**10,248**	$	6,883

As at October 31, 2021, unused capital tax losses of $1.0 million ($12.0 million as at October 31, 2020) 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, 2021, the total amount of temporary differences associated with investments in foreign subsidiaries for which deferred tax liabilities have not been recognized was $311.8 million ($285.1 million as at October 31, 2020).

Net deferred income taxes reported in the Consolidated Balance Sheet are as follows.

		2021		2020
Deferred income tax assets	**$**	**58,492**	$	62,216
Deferred income tax liabilities		**(48,244)**		(55,333)
Deferred income taxes, net	**$**	**10,248**	$	6,883

The components of deferred income tax expense (recovery) recorded in the Consolidated Statement of Income are as follows.

	2021	2020
Deferred income tax expense (recovery)		
Leases	$ 15,139	$ 31,758
Lease liabilities	11,039	2,649
Allowances for loan losses	6,807	(20,124)
Right-of-use assets	(18,348)	(4,054)
Non-capital losses	(8,813)	(23,489)
Other intangible assets	(8,680)	(3,409)
Derivatives	(7,953)	1
Premises and equipment	(5,303)	1,003
Amount related to share-based payments	(3,424)	4,880
Software	(2,294)	(2,484)
Deferred charges	(819)	(5,250)
Other temporary differences	592	638
	$ (22,057)	$ (17,881)

Income tax expense

Significant components of the income tax expense (recovery) recorded in the Consolidated Statement of Income for the years ended October 31, 2021 and 2020

	2021	2020
Current income taxes		
Income tax expense for the year	$ 37,129	$ 31,563
Previous years income tax expense (recovery) adjustment	454	(7,483)
	37,583	24,080
Deferred income taxes		
Origination and reversal of temporary differences	(21,264)	(21,916)
Previous years income tax expense (recovery) adjustment	(793)	4,035
	(22,057)	(17,881)
	$ 15,526	$ 6,199

Significant components of the income tax expense (recovery) recorded in the Consolidated Statement of Comprehensive Income for the years ended October 31, 2021 and 2020

	2021	2020
Items that may subsequently be reclassified to the Statement of Income		
Income tax expense (recovery) related to change in unrealized net gains on debt securities at FVOCI	$ (558)	$ 543
Income tax recovery related to reclassification of net gains on debt securities at FVOCI to net income	(85)	(37)
Income tax recovery related to net losses on hedges of investments in foreign operations	(159)	(320)
Income tax expense (recovery) related to net change in value of derivatives designated as cash flow hedges	(543)	8,094
	(1,345)	8,280
Items that may not subsequently be reclassified to the Statement of Income		
Income tax expense (recovery) related to remeasurement losses on employee benefit plans	11,119	(2,005)
Income tax expense (recovery) related to net losses on equity securities designated at FVOCI	14,108	(2,169)
	$ 23,882	$ 4,106
Composition of income taxes		
Current income tax recovery (recovery)	$ 11,762	$ (1,221)
Deferred income tax expense	12,120	5,327
	$ 23,882	$ 4,106

Significant components of the income tax expense (recovery) recorded in the Consolidated Statement of Changes in Shareholders' Equity for the years ended October 31, 2021 and 2020

		2021		2020
Income taxes on issuance of equity instruments				
Current income tax recovery	**$**	**(131)**	$	(1,538)
Deferred income tax recovery		**(385)**		(34)
		(516)		(1,572)
Income taxes on other items and IFRS 16 adoption				
Current income tax expense (recovery) on other items		**(6,281)**		6,312
Deferred income tax expense (recovery) on other items		**6,957**		(6,325)
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)
		676		(2,767)
	$	**160**	$	(4,339)

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.

		2021			2020	
		Amount	**Rate**		Amount	Rate
Income taxes at statutory rates	**$**	**18,982**	**26.1 %**	$	31,774	26.4 %
Change resulting from:						
Impairment of goodwill		**9,227**	**12.7**		—	—
Lower taxation related to income from foreign operations		**(9,394)**	**(12.9)**		(18,373)	(15.3)
Non-taxable dividends and non-taxable portion of capital gains		**(3,471)**	**(4.8)**		(4,876)	(4.0)
Other, net		**182**	**0.3**		(2,326)	(1.9)
Income taxes as reported in the Consolidated Statement of Income	**$**	**15,526**	**21.4 %**	$	6,199	5.2 %

20. EARNINGS PER SHARE

Basic and diluted earnings per share is detailed as follows.

		2021		2020
Earnings per share – basic				
Net income	**$**	**57,069**	$	114,085
Preferred share dividends and limited recourse capital note interest		**12,265**		12,466
Net income attributable to common shareholders	**$**	**44,804**	$	101,619
Weighted-average number of outstanding common shares (in thousands)		**43,407**		42,910
Earnings per share – basic	**$**	**1.03**	$	2.37
Earnings per share – diluted				
Net income attributable to common shareholders	**$**	**44,804**	$	101,619
Weighted-average number of outstanding common shares (in thousands)		**43,407**		42,910
Dilutive share purchase options (in thousands)		**76**		19
Diluted weighted-average number of outstanding common shares (in thousands)		**43,483**		42,929
Earnings per share – diluted	**$**	**1.03**	$	2.37

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.

21. 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.

	2021	2020
Loans		
Key management personnel	$ 907	$ 696
Deposits		
Key management personnel	$ 542	$ 916
Entities controlled by key management personnel	92	92
	$ 634	$ 1,008

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.

	2021	2020
Short-term employee benefits, including salaries	$ 3,847	$ 4,960
Post-employment benefits	810	2,151
Share-based compensation	5,853	7,756
	$ 10,510	$ 14,867

22. 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 using internal valuation techniques 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.

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)				**2021**
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Securities				
At FVOCI	**$ 180**	**$ 61**	**$ 18**	**$ 259**
At FVTPL	**$ 142**	**$ 2,906**	**$ 3**	**$ 3,051**
Derivatives	**$ —**	**$ 263**	**$ —**	**$ 263**
Liabilities				
Obligations related to securities sold short	**$ 21**	**$ 3,231**	**$ —**	**$ 3,252**
Derivatives	**$ 1**	**$ 114**	**$ 38**	**$ 153**

(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

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, 2021 and 2020.

As at October 31, 2021, 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)					2021		2020
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value
Assets							
Securities at amortized cost	$ 3,189	$ 3,189	$ —	$ 3,189	$ —	$ 3,110	$ 3,143
Loans	$ 33,450	$ 33,185	$ —	$ —	$ 33,185	$ 33,020	$ 33,079
Liabilities							
Deposits	$ 22,988	$ 23,060	$ —	$ 23,060	$ —	$ 23,920	$ 24,321
Debt related to securitization activities	$ 11,226	$ 11,230	$ —	$ 11,230	$ —	$ 10,184	$ 10,447
Subordinated debt	$ 350	$ 358	$ —	$ 358	$ —	$ 349	$ 360

The Bank also determined that the carrying value approximates the fair value as at October 31, 2021 and 2020 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.

23. 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		2021
	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	$ 5,635,089	$ 2,870,808	$ 2,764,281	$ 218,812	$ 2,525,188	$ 20,281
Derivatives	263,014	—	263,014	89,884	121,137	51,993
	$ 5,898,103	$ 2,870,808	$ 3,027,295	$ 308,696	$ 2,646,325	$ 72,274
Financial liabilities						
Obligations related to securities sold under repurchase agreements	$ 5,642,282	$ 2,870,808	$ 2,771,474	$ 218,812	$ 2,511,457	$ 41,205
Derivatives	153,069	—	153,069	89,884	18,375	44,810
	$ 5,795,351	$ 2,870,808	$ 2,924,543	$ 308,696	$ 2,529,832	$ 86,015

				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

(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.

24. 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.

25. DERIVATIVES AND HEDGES

25.1 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.

(in millions of Canadian dollars)						2021
	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	$ 6,169	$ 8,081	$ 2,376	$ 16,626	$ 13,656	$ 2,970
Exchange-traded contracts						
Futures	46	—	—	46	—	46
Foreign exchange contracts						
Over-the-counter contracts						
Cross-currency swaps	891	297	—	1,188	1,079	109
Foreign exchange swaps	1,282	33	—	1,315	—	1,315
Forwards	402	33	—	435	—	435
Options purchased	85	13	—	98	—	98
Options written	86	13	—	99	—	99
Equity- and index-linked contracts						
Options purchased	41	57	—	98	—	98
Options written	102	208	16	326	—	326
Futures	2	—	—	2	—	2
Total return swaps	14	35	—	49	8	41
	$ 9,120	$ 8,770	$ 2,392	$ 20,282	$ 14,743	$ 5,539

(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

(1) Include notional amounts of $1.8 billion related to basis swaps as at October 31, 2021 ($1.6 billion as at October 31, 2020).

(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.

Fair value of derivatives

(in thousands of Canadian dollars)	2021		2020	
	Assets	Liabilities	Assets	Liabilities
CONTRACTS DESIGNATED AS HEDGES				
Fair value hedges				
Interest rate contracts				
Swaps	$ 62,497	$ 75,819	$ 139,473	$ 27,684
Cash flow hedges				
Interest rate contracts				
Swaps	84,971	20,725	83,164	21,732
Equity- and index-linked contracts				
Total return swaps	494	—	—	2,127
Net investment hedges				
Foreign exchange contracts				
Cross-currency swaps	77,015	756	18,920	8,870
OTHER CONTRACTS[1]				
Interest rate contracts				
Swaps	12,202	7,392	28,690	28,157
Foreign exchange contracts				
Foreign exchange swaps	17,324	3,328	11,083	6,636
Forwards	2,768	4,536	2,725	1,837
Options purchased	1,649	—	3,061	—
Options written	—	1,358	—	2,857
Equity- and index-linked contracts				
Options purchased	3,702	—	8,006	—
Options written	—	39,155	—	27,524
Total return swaps	392	—	—	(12)
Total	$ 263,014	$ 153,069	$ 295,122	$ 127,412

(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)	2021			2020		
	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	$ 171	$ 577	$ 123	$ 261	$ 625	$ 144
Foreign exchange contracts	102	230	59	36	201	65
Equity-and index-linked contracts	7	43	11	6	33	7
	280	850	193	303	859	216
Impact of master netting agreements	(242)	(695)	(142)	(265)	(692)	(153)
	$ 38	$ 155	$ 51	$ 38	$ 167	$ 63

(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.

25.2 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 17 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

						2021
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	$ 150,000	$ 862,500	$ 388,000	$1,400,500	$ 27,289	$ 7,303
Hedge of fixed rate liabilities	$2,542,400	$2,864,000	$1,013,000	$6,419,400	$ 35,207	$ 68,516
Weighted-average fixed interest rate						
Hedge of fixed rate assets	1.9 %	1.5 %	1.2 %	1.5 %		
Hedge of fixed rate liabilities	0.9 %	1.5 %	1.7 %	1.3 %		

						2021
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	$1,850,600	$2,072,000	$ 73,000	$3,995,600	$ 25,485	$ 18,153
Hedge of variable rate liabilities	$ 40,000	$1,178,700	$ 622,000	$1,840,700	$ 59,486	$ 2,573
Weighted-average variable interest rate						
Hedge of variable rate assets	0.4 %	0.4 %	0.4 %	0.4 %		
Hedge of variable rate liabilities	0.5 %	0.4 %	0.5 %	0.4 %		
Equity price risk						
Total return swaps	$ —	$ 8,164	$ —	$ 8,164	$ 494	$ —
Weighted-average price	$ —	$ 40.65	$ —	$ 40.65		

2021

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	**$ 902,937**	**$ 175,732**	**$ —**	**$ 1,078,669**	**$ 77,015**	**$ (756)**
Average CAD-USD exchange rate	**$ 1.3477**	**$ 1.2552**	**$ —**	**$ 1.3317**		

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 %		

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						
Foreign exchange swaps	$ 744,643	$ 943,740	$ —	$ 1,688,383	$ 18,920	$ 8,870
Average CAD-USD exchange rate	$ 1.3265	$ 1.3482	$ —	$ 1.3385		

Fair value hedges

The following tables show amounts related to hedged items as well as the results of the fair value hedges.

2021						
(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	$ 1,373,895	$ (24,605)	$ —	$ (46,671)	$ 46,784	$ 113
Securities at FVOCI	2,000	112	8	(198)	201	3
Deposits	3,385,772	(21,628)	16,357	39,327	(39,880)	(553)
Debt related to securitization activities	2,959,596	(52,404)	21,936	105,598	(106,139)	(541)
				$ 98,056	$ (99,034)	$ (978)

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	$ 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

(1) Included on the Income from financial instruments line-item.

Cash flow hedges

The following tables show the amounts related to hedged items as well as the results of the cash flow hedges.

2021

(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	$ (4,076)	$ 12,842	$ 75,792	$ (75,366)	$ 426	$ (74,132)	$ (12,961)
Deposits	61,705	(14,666)	(75,694)	75,210	(484)	73,678	5,776
Debt related to securitization activities	(111)	(273)	(818)	821	3	1,780	(273)
	57,518	(2,097)	(720)	665	(55)	1,326	(7,458)
Equity price risk							
Other liabilities	1,835	—	(4,602)	4,602	—	4,013	78
	$ 59,353	$ (2,097)	$ (5,322)	$ 5,267	$ (55)	$ 5,339	$ (7,380)

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

(1) Included on the Income from financial instruments line-item.

Net investment hedges

The following tables show the amounts related to hedged items as well as the results of the net investment hedges.

2021						
(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	$ 76,072	$ (79,364)	$ 35,949	$ (35,949)	$ —	$ —

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	$ —	$ —

(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.

	2021		2020	
	Cash flow hedge reserve	Translation of foreign operations reserve	Cash flow hedge reserve	Translation of foreign operations reserve
Balance at beginning of period	$ 43,593	$ 6,838	$ 21,049	$ (430)
Hedges of net investments in foreign operations				
Effective portion of changes in fair value	n/a	(35,949)	n/a	5,005
Foreign currency translation gains on investments in foreign operations	n/a	10,113	n/a	1,943
Cash flow hedges				
Effective portion of changes in fair value				
Interest rate risk	1,326	n/a	25,109	n/a
Equity price risk	4,013	n/a	(2,668)	n/a
Net amount reclassified to profit or loss				
Interest rate risk	(7,458)	n/a	8,247	n/a
Equity price risk	78	n/a	(50)	n/a
Income taxes	543	159	(8,094)	320
Balance at end of period	$ 42,095	$ (18,839)	$ 43,593	$ 6,838

IBOR Reform

The Bank uses cross-currency swaps in net investment hedges to manage the foreign exchange risk arising from its net investment in foreign operations. The hedging instruments designated to manage these risks reference USD LIBOR and will be affected by the IBOR Reform as the markets transition to alternative risk free or nearly risk-free rates after June 30, 2023.

The notional amount of hedging instruments which reference IBOR that will expire after June 30, 2023 and will be affected by the IBOR Reform was nil as at October 31, 2021 (nil as at October 31, 2020), as all exposures are expected to expire or mature before the IBOR ceases. The Bank continues to monitor the impact of the IBOR Reform on its hedging instruments.

26. INCOME RELATED TO FINANCIAL INSTRUMENTS

Net interest income

		2021		2020
Interest and similar income				
Interest income calculated using the effective interest method				
Financial instruments measured at amortized cost	$	1,149,826	$	1,331,497
Financial instruments measured at FVOCI		1,724		2,575
Interest and similar income for financial instruments not measured at amortized cost[1]		101,765		88,181
		1,253,315		1,422,253
Interest and similar expense				
Interest expenses calculated using the effective interest method				
Financial instruments measured at amortized cost		560,001		730,513
Interest expense and derivative expense for financial instrument that are measured at FVTPL		973		9,316
		560,974		739,829
Net interest income	$	692,341	$	682,424

(1) Including interest income, derivative income and dividend income for financial instruments that are measured at FVTPL and from equity securities designated at FVOCI. Dividend income was $13.1 million for the year ended October 31, 2021 ($14.9 million for the year ended October 31, 2020).

Income from financial instruments (other income)

		2021		2020
Trading revenues	$	23,266	$	32,996
Income from non-trading financial instruments at FVTPL and foreign exchange		6,004		592
Net gains on FVOCI debt securities		320		140
	$	29,590	$	33,728

27. INSURANCE INCOME

Insurance income reported in other income in the Consolidated Statement of Income is detailed as follows.

		2021		2020
Insurance revenues	$	16,234	$	19,402
Claims and expenses		(6,015)		(8,254)
Insurance income, net	$	10,219	$	11,148

28. 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 $3.6 million ($3.5 million in 2020) 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.

		2021		2020
Receivable within one year	$	958	$	2,187
Receivable within 1 to 5 years		484		1,187
	$	1,442	$	3,374

29. 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 $203.4 million as at October 31, 2021 ($226.5 million as at October 31, 2020).

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 25 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.

	2021
Lease liabilities – undiscounted value	
Due within one year	$ 18,543
Due within 1 to 5 years	51,985
Due after 5 years	65,527
	136,055
Discounting	(15,914)
Lease liabilities (Note 13)	$ 120,141

Interest expense related to lease liabilities was $4.2 million for the year ended October 31, 2021 ($4.9 million for the year ended October 31, 2020). Refer to Note 8 for details on the related right-of-use assets.

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:

						2021
		Leases		**Information technology service contracts**		**Other**
Due within one year	$	21,050	$	30,929	$	4,215
Due within 1 to 5 years	$	54,440	$	31,604	$	552
Due after 5 years		62,849		19,021		—
		138,339		81,554		4,767
Less: Future minimum sublease payments to be received		(477)		—		—
Total	$	137,862	$	81,554	$	4,767

Payments under these real estate variable lease and short-term lease contracts commitments recognized as an expense amounted to $21.6 million for the year ended October 31, 2021 ($26.8 million for the year ended October 31, 2020).

Payments under these information technology service contracts and other commitments recognized as an expense amounted to $117.4 million for the year ended October 31, 2021 ($118.9 million for the year ended October 31, 2020).

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 7. The following table details the financial assets pledged as collateral under other arrangements.

		2021		2020
Pledged assets:				
To participate in clearing and payment systems[1]	$	732,070	$	517,690
For obligations related to securities sold under repurchase agreements and for securities borrowed		6,676,974		5,909,820
For obligations related to derivatives in a liability position		42,091		57,368
		7,451,135	$	6,484,878
Pledged assets are detailed as follows:				
Securities		7,293,576	$	5,965,811
Residential mortgage loans (NHA MBS)[1]		157,559		396,067
Other loans		—		123,000
	$	7,451,135	$	6,484,878

(1) Of which $575.0 million was pledged in excess of minimum requirements as at October 31, 2021, including $111.3 million of NHA MBS ($390.0 million as at October 31, 2020, including $345.5 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.

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 former executives. 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.

30. IMPAIRMENT AND RESTRUCTURING CHARGES

The following table details the Impairment and restructuring charges line item.

	2021	2020
Personal Banking segment impairment charges[1]		
Impairment of goodwill (Note 10)	$ 34,852	$ —
Impairment of software and intangible assets (Note 9)	52,741	—
Impairment of premises and equipment (Note 8)	5,800	—
	93,393	—
Strategic review-related charges[2]		
Impairment charges		
Impairment of premises and equipment (Note 8)	36,668	—
Impairment of software and intangible assets (Note 9)	31,549	—
	68,217	—
Charges related to lease and other contracts	18,425	—
Severance charges	9,425	—
	96,067	—
Restructuring charges[3]		
Severance charges	(929)	12,321
Charges related to lease contracts	(493)	4,762
Other restructuring charges	3,806	1,206
	2,384	18,289
Total	$ 191,844	$ 18,289

(1) The strategic review-related charges relate to the renewed strategic direction and include impairment charges, severance charges and charges related to lease and other contracts. Refer to Notes 8 and 9 for further details.

(2) The Personal Banking segment impairment charges relate to the impairment of the Personal Banking segment as part of the annual goodwill impairment test. Refer to Notes 8, 9 and 10 for further details.

(3) Restructuring charges mainly consist of charges associated with the optimization of the branch network and the related streamlining of certain back-office and corporate functions, as well as the resolution of the union grievances and complaints in 2021. Restructuring charges include severance charges, salaries, legal fees, communication expenses, professional fees and charges related to lease contracts.

Provision for restructuring charges

The following table shows the change in the provision for restructuring charges, including severance charges and charges related to lease and other contracts, which is included in the Other liabilities line item in the Consolidated Balance Sheet.

		2021		2020
Balance at beginning of the year	**$**	**5,041**	$	9,322
Restructuring charges incurred during the year		**30,234**		18,289
Payments made during the year		**(10,034)**		(22,570)
Balance at end of the year	**$**	**25,241**	$	5,041

As at October 31, 2021 and October 31, 2020, the remaining provision mainly relates to lease contracts and severances.

31. SEGMENTED INFORMATION

Operating segments

The Bank determines its operating segments based on how the chief operating decision maker manages the different services and products provided to clients. The Bank has three operating segments, as detailed below.

- The Personal Banking segment 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; an Advisors and Brokers channel targeting independent financial intermediaries across Canada; and a Digital Direct-to-customer platform available to all Canadians.
- The Commercial Banking 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 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 qualitative aggregation criteria and quantitative thresholds to determine that it has one reportable segment. The Bank aggregates the Personal Banking and Commercial Banking segments which have 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.The Capital Markets segment is below the quantitative thresholds to be considered a reportable segment.

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.

						2021						2020
		Canada		**United States**		**Total**		Canada		United States		Total
Total revenue	**$**	**913,036**	**$**	**89,421**	**$**	**1,002,457**	$	853,938	$	117,071	$	971,009
Average earning assets[1]	**$**	**35,515,548**	**$**	**1,858,447**	**$**	**37,373,995**	$	34,603,473	$	2,415,407	$	37,018,880

(1) 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.

Condensed Consolidated Balance Sheet

As at October 31 (in thousands of Canadian dollars, unaudited)	2021	2020	2019	2018	2017
Assets					
Cash and non-interest-bearing deposits with banks	$ **69,002**	$ 69,661	$ 90,658	$ 116,490	$ 111,978
Interest-bearing deposits with banks	**598,121**	603,181	322,897	374,237	215,384
Securities	**6,499,193**	5,799,216	6,299,936	6,061,144	5,586,014
Securities purchased under reverse repurchase agreements	**2,764,281**	3,140,228	2,538,285	3,652,498	3,107,841
Loans					
Personal	**3,681,341**	4,120,875	4,660,524	5,372,468	6,038,692
Residential mortgage	**15,856,999**	16,341,890	16,039,680	16,986,338	18,486,449
Commercial	**14,106,423**	12,730,360	12,646,332	11,839,106	11,464,007
Customers' liabilities under acceptances	**—**	—	319,992	196,776	707,009
	33,644,763	33,193,125	33,666,528	34,394,688	36,696,157
Allowances for loan losses	**(195,056)**	(173,522)	(100,457)	(93,026)	(99,186)
	33,449,707	33,019,603	33,566,071	34,301,662	36,596,971
Other	**1,696,720**	1,535,771	1,535,280	1,388,652	1,064,470
	$ **45,077,024**	$ 44,167,660	$ 44,353,127	$ 45,894,683	$ 46,682,658
Liabilities and shareholders' equity					
Deposits					
Personal	$ **18,151,044**	$ 18,796,150	$ 19,747,260	$ 20,995,453	$ 21,198,982
Business, banks and other	**4,837,185**	5,124,053	5,905,344	7,011,119	7,731,378
	22,988,229	23,920,203	25,652,604	28,006,572	28,930,360
Other	**7,842,613**	7,102,277	6,870,428	7,255,394	6,842,540
Debt related to securitization activities	**11,255,530**	10,184,497	8,913,333	7,787,753	8,230,921
Subordinated debt	**349,782**	349,442	349,101	348,762	348,427
Shareholders' equity	**2,640,870**	2,611,241	2,567,661	2,496,202	2,330,410
	$ **45,077,024**	$ 44,167,660	$ 44,353,127	$ 45,894,683	$ 46,682,658

Condensed Consolidated Statement of Income

For the years ended October 31 (in thousands of Canadian dollars, unaudited)	2021	2020	2019	2018	2017
Net interest income	$ **692,341**	$ 682,424	$ 686,411	$ 705,912	$ 638,090
Other income	**310,116**	288,585	282,099	337,498	358,320
Total revenue	**1,002,457**	971,009	968,510	1,043,410	996,410
Amortization of net premium on purchased financial instruments	**—**	638	1,452	2,296	3,383
Provision for credit losses	**49,500**	116,300	44,400	44,000	37,000
Non-interest expenses	**880,362**	733,787	726,493	716,781	689,359
Income before income taxes	**72,595**	120,284	196,165	280,333	266,668
Income taxes	**15,526**	6,199	23,455	55,687	60,207
Net income	$ **57,069**	$ 114,085	$ 172,710	$ 224,646	$ 206,461
Preferred share dividends and limited recourse capital note interest	**12,265**	12,466	12,966	14,038	17,096
Net income available to common shareholders	$ **44,804**	$ 101,619	$ 159,744	$ 210,608	$ 189,365
Non-GAAP financial measures					
Adjusted non-interest expenses[1]	$ **683,540**	$ 701,857	$ 700,103	$ 695,775	$ 658,492
Adjusted income before income taxes[1]	$ **269,417**	$ 152,852	$ 224,007	$ 303,635	$ 300,918
Adjusted net income[1]	$ **211,151**	$ 138,206	$ 193,227	$ 241,560	$ 230,741
Adjusted net income available to common shareholders[1]	$ **198,886**	$ 125,740	$ 180,261	$ 227,522	$ 213,645

(1) This is a non-GAAP financial measure. Refer to the Non-GAAP Financial and Other Measures section on page 28 for more information.

Highlights

As at and for the years ended October 31 (in thousands of Canadian dollars, except per share and percentage amounts, unaudited)	**2021**	2020	2019	2018	2017
Operating performance					
Diluted earnings per share	**$ 1.03**	$ 2.37	$ 3.77	$ 5.10	$ 5.40
Adjusted diluted earnings per share[2]	**$ 4.57**	$ 2.93	$ 4.26	$ 5.51	$ 6.09
Return on common shareholders' equity[2]	**1.9 %**	4.4 %	7.0 %	9.7 %	10.9 %
Adjusted return on common shareholders' equity[2]	**8.3 %**	5.5 %	7.9 %	10.5 %	12.3 %
Net interest margin[3]	**1.85 %**	1.84 %	1.81 %	1.78 %	1.68 %
Efficiency ratio[3]	**87.8 %**	75.6 %	75.0 %	68.7 %	69.2 %
Adjusted efficiency ratio[2]	**68.2 %**	72.3 %	72.3 %	66.7 %	66.1 %
Operating leverage[3]	**(16.7)%**	(0.7)%	(8.5)%	0.7 %	7.4 %
Adjusted operating leverage[2]	**5.8 %**	— %	(7.8)%	(0.9)%	5.4 %
Common share information					
Closing share price[4]	**$ 41.67**	$ 26.21	$ 45.30	$ 41.56	$ 60.00
Price / earnings ratio[3]	**40.5 x**	11.1 x	12.0 x	8.1 x	11.1 x
Book value per share[2]	**$ 53.99**	$ 53.74	$ 54.02	$ 53.72	$ 51.18
Dividends declared per share	**$ 1.60**	$ 2.14	$ 2.62	$ 2.54	$ 2.46
Dividend yield[3]	**3.8 %**	8.2 %	5.8 %	6.1 %	4.1 %
Dividend payout ratio[3]	**154.9 %**	90.2 %	69.3 %	49.6 %	45.7 %
Adjusted dividend payout ratio[2]	**34.9 %**	72.9 %	61.4 %	45.9 %	40.5 %
Average volumes (in millions of dollars)					
Average earning assets	**$ 37,374**	$ 37,019	$ 37,837	$ 39,663	$ 38,055
Average loans and acceptances	**$ 32,950**	$ 33,252	$ 33,966	$ 35,956	$ 34,563
Average common shareholders' equity[1]	**$ 2,398**	$ 2,295	$ 2,271	$ 2,171	$ 1,735
Credit quality					
Gross impaired loans as a % of loans and acceptances[3]	**0.75 %**	0.82 %	0.52 %	0.53 %	0.41 %
Net impaired loans as a % of loans and acceptances[3]	**0.49 %**	0.59 %	0.40 %	0.42 %	0.30 %
Provision for credit losses as a % of average loans and acceptances[3]	**0.15 %**	0.35 %	0.13 %	0.12 %	0.11 %
Basel III regulatory capital ratios					
Common Equity Tier 1 (CET1) capital ratio[5]	**10.2 %**	9.6 %	9.0 %	9.0 %	7.9 %
CET1 risk-weighted assets ($ millions)[5]	**$ 20,007**	$ 19,669	$ 20,407	$ 20,239	$ 20,427
Other information					
Number of common shares outstanding (in thousands)	**43,587**	43,238	42,625	42,075	38,966
Number of full-time equivalent employees	**2,871**	2,939	3,256	3,642	3,732
Number of branches	**58**	63	83	96	104
Number of automated banking machines[6]	**153**	169	197	222	341

(1) This is a non-GAAP financial measure. Refer to the Non-GAAP Financial and Other Measures section on page 28 for more information.
(2) This is a non-GAAP ratio. Refer to the Non-GAAP Financial and Other Measures section on page 28 for more information.
(3) This is a supplementary financial measure. Refer to the Non-GAAP Financial and Other Measures section on page 28 for more information.
(4) Toronto Stock Exchange (TSX) closing market price.
(5) In accordance with OSFI's "Capital Adequacy Requirements" guideline. Refer to the Capital Management section on page 46 for more information.
(6) 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)	2021				2020			
	Oct. 31	July 31	April 30	Jan. 31	Oct. 31	July 31	April 30	Jan. 31
Operating results								
Total revenue	$250,431	$254,884	$249,768	$247,374	$ 243,539	$248,609	$ 240,148	$238,713
Net income	$(102,876)	$ 62,064	$ 53,062	$ 44,819	$ 36,811	$ 36,217	$ 8,885	$ 32,172
Adjusted net income[1]	$ 47,829	$ 59,046	$ 56,704	$ 47,572	$ 42,311	$ 47,083	$ 11,912	$ 36,900
Operating performance								
Diluted earnings per share	$ (2.39)	$ 1.32	$ 1.15	$ 0.96	$ 0.79	$ 0.77	$ 0.13	$ 0.68
Adjusted diluted earnings per share[2]	$ 1.06	$ 1.25	$ 1.23	$ 1.03	$ 0.91	$ 1.02	$ 0.20	$ 0.79
Return on common shareholders' equity[2]	(16.9)%	9.4 %	8.6 %	7.1 %	5.9 %	5.8 %	1.0 %	5.0 %
Adjusted return on common shareholders' equity[2]	7.5 %	8.9 %	9.2 %	7.5 %	6.8 %	7.7 %	1.5 %	5.8 %
Net interest margin[3]	1.83 %	1.86 %	1.88 %	1.84 %	1.82 %	1.86 %	1.88 %	1.81 %
Efficiency ratio[3]	142.3 %	66.8 %	71.9 %	70.4 %	72.9 %	73.9 %	76.4 %	79.1 %
Adjusted efficiency ratio[2]	65.5 %	68.4 %	69.9 %	68.9 %	69.9 %	68.1 %	74.8 %	76.6 %
Operating leverage[3]	(111.1)%	7.2 %	(2.2)%	3.6 %	1.3 %	3.4 %	3.5 %	(5.7) %
Adjusted operating leverage[2]	4.2 %	2.2 %	(1.5)%	1.5 %	(2.7)%	9.3 %	2.3 %	(7.5) %
Common Share information								
Closing share price[4]	$ 41.67	$ 42.40	$ 42.54	$ 30.90	$ 26.21	$ 26.55	$ 31.09	$ 42.95
Price / earnings ratio[3]	40.5 x	10.0 x	11.6 x	11.7 x	11.1 x	10.7 x	11.3 x	12.0 x
Book value per share[2]	$ 53.99	$ 56.61	$ 55.37	$ 54.42	$ 53.74	$ 53.15	$ 52.99	$ 53.95
Dividends declared per share	$ 0.40	$ 0.40	$ 0.40	$ 0.40	$ 0.40	$ 0.40	$ 0.67	$ 0.67
Dividend yield[3]	3.8 %	3.8 %	3.8 %	5.2 %	6.1 %	6.0 %	8.6 %	6.2 %
Dividend payout ratio[3]	n.m.	30.3 %	34.7 %	41.5 %	50.8 %	52.0 %	503.6 %	98.6 %
Adjusted dividend payout ratio[2]	37.4 %	31.9 %	32.4 %	38.9 %	43.7 %	39.1 %	328.7 %	84.7 %
Credit quality								
Gross impaired loans as a % of loans and acceptances[3]	0.75 %	0.81 %	0.77 %	0.82 %	0.82 %	0.84 %	0.70 %	0.56 %
Net impaired loans as a % of loans and acceptances[3]	0.49 %	0.53 %	0.51 %	0.56 %	0.59 %	0.62 %	0.52 %	0.42 %
Provision for credit losses as a % of average loans and acceptances[3]	0.30 %	0.07 %	0.03 %	0.20 %	0.29 %	0.27 %	0.67 %	0.18 %
Basel III regulatory capital ratios								
Common Equity Tier 1[5]	10.2 %	10.3 %	10.1 %	9.8 %	9.6 %	9.4 %	8.8 %	9.0 %
CET1 risk-weighted assets ($ millions)[5]	$ 20,007	$ 19,675	$ 19,698	$ 19,715	$ 19,669	$ 19,927	$ 20,870	$ 20,619
Other information								
Number of common shares outstanding (in thousands)	43,587	43,506	43,424	43,343	43,238	43,121	42,939	42,748

(1) This is a non-GAAP financial measure. Refer to the Non-GAAP Financial and Other Measures section on page 28 for more information.
(2) This is a non-GAAP ratio. Refer to the Non-GAAP Financial and Other Measures section on page 28 for more information.
(3) This is a supplementary financial measure. Refer to the Non-GAAP Financial and Other Measures section on page 28 for more information.
(4) Toronto Stock Exchange (TSX) closing market price.
(5) In accordance with OSFI's "Capital Adequacy Requirements" guideline. Refer to the Capital Management section on page 46 for more information.

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.

The role of the Board is to oversee the management of the business and affairs of the Bank. The Board has delegated some of its powers and functions to three committees, being the Audit Committee, the Risk Management Committee, and the Human Resources and Corporate Governance (HRCG) Committee, whose members are all independent directors. The committees regularly submit updates and reports on their work to the Board of Directors. The committees also report to shareholders on their activities in the Bank's Management Proxy Circular.

The members of the Board commit to act in accordance with standards set out in the Directors' Code of Conduct, which covers issues such as general conduct, contribution to the work of the Board and its committees as well as ethical considerations such as 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 strong 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, including the Insider Trading Policy, the Related Party Policy, Whistleblower Policy and Anti-Money Laundering and Anti-Terrorist Financing Policy.

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. 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). Further, the Board has established procedures to enable it to function independently of management and to facilitate open and candid discussions among the independent directors, including holding in camera sessions at Board and Committee meetings. The Board and its committees also hold in camera sessions with the heads of the oversight functions and with the Bank's external auditors.

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 and that non-gender factors such as race and geographic distribution also be considered. The Board has also adopted a framework dealing with term limits for directors. 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. In 2021, the HRCG Committee engaged an independent consultant to assist in the evaluation of the Board's performance.

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.

GOVERNANCE HIGHLIGHTS

COVID-19 response: Since the outset of the COVID-19 pandemic, the Board has prioritized the health, safety and well-being of the Bank's employees , customers and the communities in which they live and work. Board members were actively involved in the Bank's efforts to respond to the COVID-19 pandemic meeting regularly with management to discuss appropriate measures to identify, monitor and manage the pandemic response and to ensure our business would continue to operate in a safe and effective manner.

Board renewal: The Board welcomed a new independent director in 2021 to complement the profile of the existing Board of Directors, adding further expertise and new perspectives to the Board of Directors. 60% of the independent directors were appointed in the last five years.

Shareholder Engagement: The Chairs of the Board and HRCG Committee held a number of engagement meetings to gain feedback from shareholders and other stakeholders on the Bank's practices on evolving issues including executive compensation, environment, social and governance matters and cybersecurity.

Environment, Social and Governance ("ESG") Initiatives: The Bank believes that ESG initiatives are interconnected with business performance and are relevant to our diverse stakeholders. Accordingly, the ongoing integration of ESG factors into strategic, risk management and other practices is an important area of focus for the Bank. To reflect its growing importance, the Board has updated its mandate and those of its committees to incorporate ESG as a specific area of strategic oversight.

For further information on the Bank Corporate Governance Practices, please refer to the pages 43 to 56 of the Bank's 2021 Management Proxy Circular.

AUDIT COMMITTEE

The Audit Committee is comprised of five (5) independent directors and is mandated to assist the Board in fulfilling its oversight responsibilities with respect to financial reporting. Each member of the Audit Committee has a level of financial literacy that is appropriate for understanding the complexity of the Bank's operations. As set out in the Audit Committee mandate, the Audit Committee is responsible for overseeing, among other matters, the work of the Bank's internal and external auditors, the integrity of the Bank's financial statements and financial reporting process, the qualifications and independence of the external auditor and the work of the Bank's financial management and external auditor. The Audit Committee reviews, and recommends to the Board for approval, the Bank's annual and interim consolidated financial statements and related management's discussion and analysis and selected disclosure documents, including information pertaining to the Audit Committee contained in the Bank's annual information form and any other financial information required by regulatory authorities, in each case, before they are released to the public or filed with the appropriate regulators. As standards are developed, the Audit Committee will also review and recommend to the Board for approval any financial disclosure related to environmental, social and governance issues, including climate-related financial disclosure. The Audit Committee reviews its charter at least annually and recommends changes to the Board with respect to its charter, as necessary.

In addition, in accordance with applicable regulations, the Audit Committee ensures that there are procedures in place for the receipt, retention and treatment of complaints received by the Bank regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. In this regard, the Bank has established a Whistleblower Policy outlining such confidential reporting process.

The Audit Committee meets on a regular basis with the internal audit function and external auditor, respectively, without the presence of other members of management. Further, Committee meetings end with a discussion period where only members of the Audit Committee are present.

The above is a summary of the Audit Committee Mandate which can be reviewed in its entirety on the Bank's website at laurentianbank.ca.

RISK MANAGEMENT COMMITTEE

The Risk Management Committee is comprised of five (5) independent directors and is mandated to assist the Board in fulfilling its oversight responsibilities with respect to risk management. In fulfilling its mandate, the Risk Management Committee is responsible for identifying the Bank's principal risks and ensuring the implementation of systems capable of managing them appropriately. It reviews and approves material frameworks, plans and policies related to risk. In particular, the Risk Management Committee oversees regulatory risk management and ensures the Bank's Management has established appropriate mechanisms for compliance with various laws and regulations including requirements under the Bank Act (Canada). In addition, the Risk Management Committee approves the Bank's Risk Appetite and Risk Management Framework and oversees the Bank's risk-taking activities and performance against its established risk appetite. Further, the Risk Management Committee ensures the Bank adopts and implements processes for determining appropriate capital levels based on risk assumptions and models.

As part of its oversight of enterprise-wide risk, the Risk Management Committee is also responsible for overseeing the identification of new and emerging risks including those associated with environmental and social issues. This includes overseeing the integration of ESG principles with the Bank's risk appetite and management frameworks.

In addition, the Risk Management Committee is responsible for oversight of transactions with related parties, which refers to transactions between the Bank and its directors and senior officers as defined under the Bank Act (Canada). The Risk Management Committee has established procedures to ensure that any related party transactions are conducted under terms and conditions that are at least as favourable to the Bank as market terms and conditions and otherwise carried out in accordance with requirements under the Bank Act (Canada).

The Risk Management Committee also reviews, 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 issued by the Financial Stability Board.

The Risk Management Committee meets on a regular basis with the Chief Risk Officer and the Chief Compliance Officer without the presence of other members of management. In addition, Committee meetings end with a discussion period where only members of the Risk Management Committee are present.

The above is a summary of the Risk Management Committee Mandate which can be reviewed in its entirety on the Bank's website at laurentianbank.ca.

HUMAN RESOURCES AND CORPORATE GOVERNANCE COMMITTEE

The HRCG Committee is comprised of five (5) members, each of whom is an independent director. The HRCG Committee is responsible for developing the Bank's approach to corporate governance, and 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. The HRCG Committee regularly reports to the Board to ensure that governance matters are appropriately discussed and deliberated.

The HRCG Committee also oversees the administration of the Bank's equity compensation and pension plans, assists in the discharge of the Board's responsibilities relating to the compensation of certain of the Bank's executives, reviews and makes recommendations on director and executive compensation, including the compensation package of the chief executive officer and is responsible for approving the Bank's report on executive compensation, as required by applicable securities laws. This includes annual review, in collaboration with the Risk Management Committee, of the alignment of the Bank's compensation, performance and assumed risk with the remuneration standards issued by the Financial Stability Board.

Further, in discharging its human resources oversight, the HRCG Committee oversees key culture and human capital strategies, including employee engagement, employee health, safety and well-being, and equity, diversity and inclusion. In all its deliberations, the HRCG Committee is mindful of the environmental, social and governance principles applicable to the Bank's operations.

The mandate of the HRCG Committee also includes reviewing the size and overall composition of the Board with a view to assisting the Board in determining whether it is appropriate to undertake a program to increase or decrease the number of directors of the Bank, reviewing proposed new nominees to the Board and reviewing and assessing, on a periodic basis, the performance and contribution of the directors of the Bank. In fulfilling its responsibilities, the HRCG Committee has the authority to retain a compensation consultant for assistance, if required, in the evaluation of employee, officer and director compensation.

The HRCG Committee also has responsibilities related to public disclosure and for ensuring that shareholders are well informed of the Bank's affairs and that an appropriate framework is in place for shareholder and broader stakeholder engagement and feedback.

The HRCG Committee meets on a regular basis with the Chief Human Resources Officer without the presence of other members of management. To enhance director independence, the meetings of the Committee end with a discussion period where only members of the HRCG Committee are present.

The above is a summary of the Human Resources and Corporate Governance Committee Mandate which can be reviewed in its entirety on the Bank's website at laurentianbank.ca.

The complete text outlining the functions of the Board of Directors can be found in the Corporate Governance section on the Bank's website. Committee reports to shareholders can be found in the Bank's Management Proxy Circular.

PRINCIPAL SUBSIDIARIES

As at October 31, 2021 (in thousands of Canadian dollars, unaudited)	Head office location[1]	Book value of voting shares owned by the Bank[2]	Percentage of voting shares owned by the Bank[2]
Corporate name			
B2B Bank	Toronto, Canada	$ 604,161	100 %
Laurentian Bank Securities Inc.	Montreal, Canada	$ 201,274	100 %
Laurentian Trust of Canada Inc.	Montreal, Canada	$ 105,652	100 %
LBC Capital Inc.	Burlington, Canada	$ 2,216,437	100 %
NCF Commercial Finance Holdings Inc.	Alpharetta, United States		
Northpoint Commercial Finance LLC	Alpharetta, United States		
LBC Financial Services Inc.	Montreal, Canada	$ 382,361	100 %
LBC Investment Management Inc.	Montreal, Canada	$ 441,477	100 %
V.R. Holding Insurance Company Ltd	St. James, Barbados		
Venture Reinsurance Company Ltd	St. James, Barbados		
LBC Tech Inc.	Toronto, Canada	$ (512)	100 %
LBC Trust	Montreal, Canada	$ 79,974	100 %
NCF International Holding Kft	Budapest, Hungary	$ 66,488	100 %

(1) Each subsidiary is incorporated or organized under the laws of the country in which the principal office is located

(2) The book value of shares with voting rights corresponds to the Bank's interest in the shareholders' equity of the subsidiaries.

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 corporate_secretariat@lbcfg.ca

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

Media

Journalists may contact the Bank's Executive Office at media@lbcfg.ca or by calling 514-451-3201.

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
		**	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.

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ISBN 978-2-9820582-1-7
Legal Deposit — Bibliothèque et Archives nationales du Québec, 2021
Legal Deposit — Library and Archives Canada, 2021

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