Indigenous Bank & Trust

FIRST NATIONS BANK
OF CANADA

2020 CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditor's Report

To the Shareholders of
First Nations Bank of Canada

Opinion

We have audited the accompanying consolidated financial statements of **First Nations Bank of Canada** ["the Bank"], which comprise the consolidated statement of financial position as at October 31, 2020 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of **First Nations Bank of Canada** as at October 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 financial statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibility for the audit of the financial statement

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 Bank'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 Bank'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 Bank 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.

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.

Ernst & Young LLP

Chartered Professional Accountants

Saskatoon, Canada
December 15, 2020

FIRST NATIONS BANK OF CANADA

CONSOLIDATED STATEMENT OF

Financial Position

As at October 31 *[in thousands of Canadian dollars]*

	Notes	2020	2019
ASSETS			
Cash and cash equivalents	6	441,737	202,685
Interest-bearing deposits with financial institutions	7	76,510	75,798
Loans and advances to customers	8		
Mortgage loans		99,771	100,152
Personal loans		13,390	12,785
Business loans		322,528	272,980
		435,689	385,917
Derivative financial instrument	20	74	-
Right of use assets	11	4,657	-
Deferred tax asset	18	376	-
Property and equipment	12	2,797	3,456
Intangible assets	13	1,627	2,076
Other assets	9	2,267	2,238
Total assets		**965,734**	**672,170**
LIABILITIES			
Due to customers			
Notice deposits		757,694	482,616
Medium-term certificates		140,134	128,372
		897,828	610,988
Derivative financial instrument	20	-	64
Deferred tax liability	18	-	154
Lease liability	14	4,747	-
Other liabilities	10	12,541	12,808
Subordinated debentures	16	4,270	4,233
Total liabilities		**919,386**	**628,247**
Guarantees	21		
EQUITY			
Issued capital	17	30,212	30,030
Retained earnings		16,136	13,893
Total equity		**46,348**	**43,923**
Total liabilities and equity		**965,734**	**672,170**

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors

Director

Director

FIRST NATIONS BANK OF CANADA

CONSOLIDATED STATEMENT OF

Comprehensive Income

For the year ended October 31 *[in thousands of Canadian dollars]*.

	Notes	**2020**	2019
INTEREST INCOME			
Term and bank deposits		**4,306**	5,423
Loans and advances to customer			
Mortgage loans		**3,313**	3,325
Personal loans		**961**	991
Business loans		**13,543**	12,879
		22,123	22,618
INTEREST EXPENSE			
Notice deposits		**2,392**	4,245
Medium-term certificates		**2,192**	2,321
Subordinated debentures		**295**	304
Interest on lease liabilities		**169**	-
		5,048	6,870
Net interest income		**17,075**	15,748
Provision for (recovery of) credit losses	*8*	**874**	(162)
Net interest income after provision for (recovery of) credit losses		**16,201**	15,910
Fees and commission		**4,829**	4,421
		21,030	20,331
NON-INTEREST EXPENSES			
Salary and staff benefits		**8,769**	7,617
Rent and occupancy		**1,311**	2,218
Marketing		**290**	428
Professional fees		**1,353**	1,128
Banking platform		**2,765**	2,525
Travel		**251**	501
Other operating expenses		**217**	885
Depreciation and amortization		**2,591**	1,427
Total operating expenses		**17,547**	**16,729**
Income before income taxes		**3,483**	3,602
Income tax expense	*18*	**866**	969
Net income for the year		**2,617**	**2,633**
Other comprehensive income for the year		**-**	-
Total comprehensive income		**2,617**	**2,633**

The accompanying notes are an integral part of these financial statements.

FIRST NATIONS BANK OF CANADA

CONSOLIDATED STATEMENT OF

Changes In Equity

[in thousands of Canadian dollars]

	Issued capital	Retained earnings	Total equity
As at November 1, 2018	**26,041**	**11,649**	**37,690**
Total comprehensive income for the year			
Impact of adopting IFRS 9		(90)	(90)
Net income for the year		2,633	2,633
Total comprehensive income for the year		**2,543**	**2,543**
Share capital issuance, net of costs	3,989		3,989
Dividends to equity holders		(299)	(299)
As at October 31, 2019	**30,030**	**13,893**	**43,923**
Total comprehensive income for the year			
Net income for the year		2,617	2,617
Total comprehensive income for the year		**2,617**	**2,617**
Share capital issuance, net of costs	182		182
Dividends to equity holders		(374)	(374)
As at October 31, 2020	**30,212**	**16,136**	**46,348**

The accompanying notes are an integral part of these financial statements.

FIRST NATIONS BANK OF CANADA

CONSOLIDATED STATEMENT OF

Cash Flows

For the year ended October 31 *[in thousands of Canadian dollars]*

	2020	2019
OPERATING ACTIVITIES		
Income for the year	**2,617**	2,633
Adjustments:		
Provision for (recovery of) credit losses	**853**	(183)
Deferred income taxes	**(530)**	(190)
Depreciation and amortization	**2,591**	1,427
Amortization of subordinated debentures	**37**	34
	5,568	3,721
Adjustments for changes in:		
Interest receivable	**(13)**	(313)
Interest payable	**(147)**	212
Other receivables	**(16)**	142
Derivative financial instrument	**(138)**	(263)
Other liabilities	**(120)**	6,733
	(434)	6,511
Changes in:		
Mortgage loans	**278**	(1,496)
Personal loans	**(630)**	(1,119)
Business loans	**(50,272)**	(24,049)
Notice deposits	**275,078**	115,579
Medium-term certificates	**11,762**	(9,766)
	236,216	79,149
Net cash provided by operating activities	**241,350**	**89,381**
INVESTING ACTIVITIES		
Purchase of property and equipment	**(84)**	(1,827)
Additions to intangible assets	**(371)**	(505)
Interest-bearing deposits with financial institutions	**(713)**	(25,365)
Net cash used in investing activities	**(1,168)**	**(27,697)**
FINANCING ACTIVITIES		
Repayment of lease liability	**(938)**	-
Issuance of common shares	**-**	3,989
Dividends paid to equity holders	**(192)**	(299)
Net cash (used in) provided by financing activities	**(1,130)**	**3,690**
Net increase in cash and cash equivalents during the year	**239,052**	**65,374**
Cash and cash equivalents, beginning of year	**202,685**	**137,311**
Cash and cash equivalents, end of year	**441,737**	**202,685**
Operational cash flows from:		
Interest paid	**5,195**	6,658
Income taxes paid	**1,199**	1,458

The accompanying notes are an integral part of these financial statements.

FIRST NATIONS BANK OF CANADA

Notes to Consolidated Financial Statements

[in thousands of Canadian dollars, unless otherwise indicated]

October 31, 2020

1. INCORPORATION AND NATURE OF OPERATIONS

First Nations Bank of Canada (the Bank) is a bank domiciled in Canada. The Bank was incorporated under the Bank Act [1992 as amended] by Letters Patent dated November 19, 1996. The Bank's registered office is on the Yellow Quill First Nation at 224 4th Avenue South, Saskatoon, Saskatchewan. The Bank is primarily involved in providing financial services to the Indigenous marketplace in Canada.

2. BASIS OF PRESENTATION

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as set out in the Handbook of the Chartered Professional Accountants of Canada (CPA Canada Handbook).

The accounting policies followed by the Bank, including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada (OSFI), conform to IFRS and interpretations issued by the IFRS Interpretations Committee (IFRIC), as published by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of the financial statements are set out below.

The financial statements were authorized for issue by the Board of Directors on December 15, 2020.

Basis of measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments that have been measured at fair value. The carrying values of recognized assets that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

Basis of consolidation

The consolidated financial statements include the balances of the Bank and its wholly owned subsidiary FNB Trust as at October 31, 2020, after the elimination of intercompany transactions. The Bank consolidates those entities which it controls. The Bank has control when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiary are prepared for the same reporting period as the Bank, using consistent accounting policies, with operations being reflected from the date of incorporation of FNB Trust on April 8, 2020.

Use of estimates and judgments

The preparation of the financial statements of the Bank in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is discussed below and included in notes 8 and 18. Other significant estimates are discussed below.

Depreciation/amortization policies and useful lives

The Bank depreciates property and equipment and amortizes intangible assets over the estimated useful lives of the assets. In determining the estimated useful life of these assets, significant judgment by management is required. In determining these estimates, the Bank takes into account expectations of the in-service period of these assets. The Bank assesses the estimated useful life of these assets on an annual basis to ensure that they match the anticipated life of an asset from a revenue producing perspective. If the Bank determines that the useful life of an asset is different from the original assessment, changes to depreciation and amortization will be applied prospectively.

Leases

The Bank used its incremental borrowing rate (“IBR”) to measure all lease liabilities at November 1, 2019. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with similar security, the funds necessary to obtain an asset of similar value to the right of use asset in a similar economic environment. When no observable rates are available, the Bank estimates the IBR using observable inputs.

Impairment losses on loans and advances

The measurement of impairment losses under IFRS 9, Financial Instruments (IFRS 9) across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank’s expected credit loss (ECL) calculations are outputs of model with several underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank’s internal credit risk rating model, which is used to assess if there has been a significant increase in credit risk
- The Bank’s assignment of loss rates to each individual risk rating
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on loss rates, exposure at default, and losses given default
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models
- Qualitative adjustments or overlays using expert credit judgment in the calculations of ECLs

It has been the Bank’s policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Taxes

The Bank’s income tax expense reflects an estimate of the cash taxes it expects to pay for the current year, as well as a provision for changes arising in the values of deferred tax assets and liabilities during the year. The tax value of these assets and liabilities is impacted by factors such as accounting estimates inherent in these balances, management’s expectations about future operating results, and previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authorities. Management assesses the likelihood of recovering value from deferred tax assets and adjusts the tax provision. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and the level of future taxable profits together with future tax planning strategies.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended IFRS standards that are effective for the current year

IFRS 16, Leases ("IFRS 16")

On November 1, 2019, the Bank adopted IFRS 16 which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer ("lessee") and the supplier ("lessor"). All leases result in the Bank (the lessee) obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, the adoption of IFRS 16 eliminated the classification of leases as either operating leases or finance leases as was required by IAS 17, Leases and, instead, introduced a single lessee accounting model. Applying that model, a lessee is now required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the consolidated statement of income.

As the Bank has implemented IFRS 16 Leases using the modified retrospective approach, the comparative figures have not been restated. For the year ended October 31, 2019, all leases were considered operating leases and are recorded as operating expenses as incurred.

On the adoption of IFRS 16, the Bank recognized a right-of-use asset of $5,306 relating to its premises leases which will be amortized over the term of the leases. This asset is disclosed in Note 11. The Bank also recognized a liability for the principal component of future lease payments by $5,306, which will be repaid over the term of the leases. The lease liability as at November 1, 2019 can be reconciled to the lease commitments as of October 31, 2019 as follows:

Lease commitment as at October 31, 2019	**$**	**6,651**
Weighted average incremental borrowing rate as at November 1, 2019		3.25%
Discounted operating lease commitments as at November 1, 2019	$	6,077
Less:		
Commitments relating to short-term leases		(68)
Commitments that do not meet the definition of a lease		(703)
Lease liability as at November 1, 2019	**$**	**5,306**

IFRIC 23, Uncertainty over Income Tax Treatments ("IFRIC 23")

On November 1, 2019, the Bank adopted IFRIC 23. This interpretation clarifies how to apply the recognition and measurement requirements in IAS 12, Income Taxes ("IAS 12") when there is uncertainty over income tax treatments. In such a circumstance, the Bank shall recognize and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined by applying this Interpretation. There was no impact to the consolidated financial statements as a result of the adoption of IFRIC 23.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Bank's functional and presentation currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand unless otherwise indicated.

Foreign currency translation

Transactions denominated in a foreign currency are translated into Canadian dollars at actual exchange rates prevailing at the time the transactions occurred. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing on the financial position date and transactions are translated using the exchange rate prevailing at the date of transaction. Exchange gains or losses on translation of monetary assets and liabilities are included in net income in the period incurred.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted current accounts and balances with financial institutions as referred to in the statements of cash flow comprise cash on hand, non-restricted current accounts with financial institutions and amounts due on demand or with an original maturity of three months or less.

Financial instruments

Financial assets and financial liabilities are initially recognized in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Bank recognizes balances due to customers when funds are transferred to the Bank.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial assets

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification and measurement

The classification of financial instruments is dependent on the business model used for managing the instrument, and the cash flow characteristics of the instrument.

Financial assets are not reclassified subject to their initial recognition, unless the Bank changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change.

Amortized cost

The Bank classifies financial assets as amortized cost where they meet the following conditions and are not designated at fair value through profit or loss:

- Held to collect contractual cash flows; and
- Contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The carrying amount of these assets is adjusted by any expected credit loss allowance.

Fair value through other comprehensive income – debt instruments

The Bank classifies financial assets as FVTOCI where they meet the following conditions and are not designated at FVTPL:

- Held to collect contractual cash flows and to sell the corresponding financial assets; and
- Contractual terms give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

FVTOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in the fair value recognized in OCI. Interest income is recognized in profit and loss. When necessary, an expected credit loss allowance is recognized in other comprehensive income and accumulated in the fair value reserve and does not reduce the carrying amount of the financial asset in the statement of financial position. On derecognition, cumulative gains and losses previously recognized in OCI are reclassified from OCI to profit and loss.

Fair value through other comprehensive income – equity instruments

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVTOCI when the meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held-for- trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognized in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVTOCI are not subject to an impairment assessment.

The Bank has not designated any investments in equity instruments as FVTOCI on initial application of IFRS 9.

Financial assets or financial liabilities held-for-trading

The Bank classifies financial assets or financial liabilities as held-for-trading when they have been purchased or issued primarily for short-term profit-making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognized in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

Included in this classification are debt securities, equities, short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

Fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held-for-trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVTPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis, or
- The liabilities are part of a group of financial liabilities, which are managed, and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or
- The liabilities contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss, with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Bank's own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVTPL is accrued in interest income or interest expense, respectively, using the effective interest rate (EIR). Dividend income from equity instruments measured at FVTPL is recorded in profit or loss as other operating income when the right to the payment has been established. The Bank classifies financial assets that do not meet the criteria for amortized cost or FVTOCI at FVTPL.

Fair value measurement

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets.

Financial instruments are measured at a closing price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. Fair value is determined in the manner described in Note 19.

Impairment of financial assets

The Bank recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The ECL model consists of three stages:

- Stage 1 – twelve-month ECLs for performing financial assets,
- Stage 2 – lifetime ECLs for financial assets that have experienced a significant increase in credit risk since initial recognition, and
- Stage 3 – lifetime ECLs for finance assets that are impaired.

ECLs are the difference between all contractual cash flows that are due to the Bank in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at the original effective interest rate. If a significant increase in credit risk has occurred since initial recognition, impairment is measured as lifetime ECLs. Otherwise, impairment is measured as twelve- month ECLs which represent the portion of lifetime ECLs that are expected to occur based on default events that are possible within twelve months after the reporting date. If credit quality improves in a subsequent period such that the increase in credit risk since initial recognition is no longer considered significant, the loss allowance reverts back to being measured based on twelve-month ECLs.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition.

In making this assessment, there is consideration of both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. The Bank utilizes information available to assign a risk rating to financial instruments which is used in determining whether there has been a significant increase in credit risk. When determining whether there has been a significant increase in credit risk since initial recognition of a financial asset, the Bank considers all reasonable and supportable information that is available without undue cost or effort about past events, current conditions, and forecast or future economic conditions.

Irrespective of the outcome of the above assessment, the Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Bank has reasonable and supportable information that demonstrates otherwise.

Definition of default

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments or loans with a borrower risk rating (BRR) of 9 for business loan exposures.

Forward-looking information

In calculating the ECL, the Bank utilizes a base economic forecast accompanied by probability-weighted indicators of possible upside and downside economic conditions. Indicators of upside and downside economic conditions that are considered by the Bank include unemployment rates, CPI index, interest rate projections and commodity index forecasts.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. Expected life is the maximum contractual period the Bank is exposed to credit risk, including extension options for which the borrower has unilateral right to exercise.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Bank in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at the original effective interest rate.

Write-offs

The Bank writes-off financial assets when there is no reasonable expectation of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof.

Derecognition of financial assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the balance sheet.

On derecognition of a financial asset measured at amortized cost, the difference between the carrying amount of the asset, and the sum of the consideration received, and receivable is recognized in net income.

In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Bank has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the fair value reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

Financial liabilities

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Bank, are measured in accordance with the specific accounting policies set out below.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading or (iii) it is designated as at FVTPL. The Bank does not have any financial liabilities measured at FVTPL.

Financial liabilities measured subsequently at amortized cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Bank exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

Hedge accounting

The Bank makes use of interest rate swap derivative instruments to manage interest rates exposures. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria.

At inception of the hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and on an ongoing basis. At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the income statement.

Fair value hedges

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognized in the income statement. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also recognized in the statement of comprehensive income through profit or loss.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the recalculated EIR method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the income statement.

Share-based payments - Cash-settled transactions

The Bank has a cash-settled Performance Share Unit ("PSU") and Phantom Share Option ("PSO") plans for senior executives. The cost of cash-settled transactions is measured initially at fair value at the grant date based on an estimate of the quantity of PSUs and PSOs expected to vest. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognized in employee benefits expense.

Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and is recognized in non-interest income or expense in the statement of comprehensive income.

Depreciation is recognized over the estimated lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

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

Furniture, fixtures and other equipment	20% declining balance
Leasehold improvements	straight-line over the expected lease term
Computer equipment	straight-line over 3 years
Branch prototype project	straight-line over the expected lease term

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

Intangible assets

Intangible assets with finite lives are stated at cost less accumulated amortization and accumulated impairment losses.

Expenditures on internally generated intangible assets are recognized as assets when the Bank is able to demonstrate its intention and ability to complete the development and use the intangible assets in a manner that will generate future economic benefits and can reliably measure the costs to complete the development. The capitalized costs of internally generated intangible assets include all costs directly attributable to developing the intangible assets and capitalized borrowing costs and are amortized over their useful lives. Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. The estimated useful lives for the current and comparative year are as follows:

Website development	straight-line over 3 years
Computer systems	straight-line over 10 years
Small market branch	straight-line over the expected lease term

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

Impairment of non-financial assets

At the end of each reporting period, the Bank reviews the carrying amounts of its property and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash- generating unit (CGU) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the CGU for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in the income statement.

Deferred costs

Deferred costs include the cash rebates paid on cash back mortgages which are deferred and amortized over the term of the mortgage. Deferred costs also include prepaid insurance costs.

Income taxes

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

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

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

Leases - Bank as lessee

Effective November 1, 2019, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Right of use assets and lease liabilities are recognized at the lease commencement date, that is, on the date when the underlying asset is available for use by the Bank. The Bank's right of use assets do not meet the definition of investment property.

Right of use assets are initially and subsequently measured at cost and depreciated over the shorter of the asset's useful life and the lease term, on a straight-line basis. The right of use assets are remeasured in the event of impairment in accordance with IAS 36 *Impairment of Assets*.

Lease liabilities are initially and subsequently measured at the present value of the lease payments which are unpaid as of the commencement date. The future lease payments are discounted using the interest rate implicit in the lease, if readily determinable. If not readily determinable, the Bank's incremental borrowing rate is used, which is the rate to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the right of use asset. After the commencement date, the carrying amount of lease liabilities are remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. Adjustments to the carrying amount of the lease obligation as a result of remeasurement are accounted for as a corresponding adjustment to the right of use asset.

Short-term leases include arrangements where the lease term is 12 months or less and do not contain a purchase option. Low value assets for the Bank include items such as information technology equipment & office equipment. Such leases are expensed on a straight-line basis over the lease term.

Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Contingencies

Management applies its judgment to the fact patterns and advice it receives from its legal counsel and other advisors in assessing if an obligation is probable (i.e. more likely than not) or remote. This judgment application is used to determine if the obligation is recognized as a liability, as a provision, or disclosed as a contingent liability.

Income and expense recognition

Income is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

For all financial instruments measured at amortized cost and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation considers all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as “Interest income” for financial assets and “Interest expense” for financial liabilities.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, other management fees, trust consulting and trust management fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognized over the commitment period on a straight-line basis.

5. FINANCIAL RISK MANAGEMENT

The Bank has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Interest rate risk
- Operational risk
- Foreign exchange risk

This note presents information about the Bank’s exposure to each of the above risks, the Bank’s objectives, policies and processes for measuring and managing risk, and the Bank’s management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank’s risk management framework. The Bank’s risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit and Risk Management Committee is responsible for monitoring compliance with the Bank’s risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit and Risk Management Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Management Committee.

(a) Credit risk

Credit risk is the potential for financial loss if a borrower or counterparty in a transaction fails to meet its agreed payment obligations. Credit risk is managed through the credit risk policies, management guidelines and discretionary limits of the Bank. Guidelines are established to monitor and limit industry risk and group exposure in the portfolio. Refer to Note 8 for credit risk exposure.

Analysis of risk concentration

The Bank's concentrations of risk are managed by client and by industry sector. The maximum credit exposure to any client as at October 31, 2020 was $10,000 [2019 - $8,000], before taking account of collateral or other credit enhancements.

The majority of personal loans are secured and a significant portion of mortgage loans are insured. The following table shows the risk concentration by industry for the business loans:

Industry	**2020 $**	2019 $
Financial services	**2,735**	94
Government – others	**768**	2,275
Government First Nation	**124,498**	102,442
Health and social	**6,648**	5,842
Professional and recreation	**4,442**	4,369
Real estate	**95,424**	77,728
Retail	**15,520**	14,434
Transportation	**1,688**	1,400
Hotel and lodging	**30,119**	23,839
Others	**42,867**	42,014
	324,709	**274,437**

(b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Bank monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets and projected cash flows from operations. The Bank's objective is to ensure that sufficient readily marketable assets are available at all times to cover three months of expected operational cash flows. The Bank also maintains a combination of readily marketable assets and available bank overdraft to meet cash outflow requirements that may arise from a disruption to the normal course of business. This requirement is defined as 6% of commercial term and non-term deposits, 10% of total non-term deposits and term deposits expiring within 30 days. The Bank also measures and monitors concentration of funding sources.

(c) Interest rate risk

The Bank's exposure to the risk of changes in market interest rates relates primarily to mismatches in the Bank's assets and liabilities. The Bank's policy is to measure and manage interest rate risk exposure in earnings and economic value perspectives. The Bank analyses interest rate shock scenarios to estimate the impact of changes in interest rates on both the annual earnings at risk and the economic value of the Bank's equity at risk. The Bank's policy is to limit the variation in annual net interest income caused by a 1% increase (decrease) in market interest to 5% of annual net interest income. In addition, the Bank's policy limits the change in the Bank's economic value caused by a 1% increase (decrease) in market interest rates to 5% of shareholders' equity.

As at October 31, 2020, with other variables unchanged, an increase (decrease) of 1% in interest rates would (decrease) increase annualized net income before tax by approximately ($122) $122 thousand.

The following tables set out the assets and liabilities on the date of the earlier of contractual maturity or when they re-price. Use of these tables to derive information about the Bank's interest rate risk position is limited by the fact that the date the financial instruments re-price may be different from the earlier of contractual maturity or re-pricing date. Examples of this include mortgages that are shown at contractual maturity, but which often prepay earlier, and certain borrowings, which are shown at contractual maturity but which are often redeemed before their contractual maturity.

2020

	Floating rate $	Less than 1 year $	1 to 2 years $	2 to 3 years $	Over 3 years $	Non-interest rate sensitive $	Total $
ASSETS							
Cash and cash equivalents	441,737	-	-	-	-	-	441,737
Effective yield	-	-	-	-	-	-	-
Interest-bearing deposits	-	-	-	-	-	-	-
with financial institutions	-	76,510	-	-	-	-	76,510
Effective yield	-	*1.79*	-	-	-	-	-
Mortgage loans	10,634	28,753	17,810	14,634	27,940	-	99,771
Effective yield	-	*3.60*	*3.18*	*3.34*	*3.19*	-	-
Personal loans	11,608	991	518	207	66	-	13,390
Effective yield	-	*12.88*	*12.57*	*11.83*	*9.83*	-	-
Business loans	136,489	40,091	41,126	25,080	79,742	-	322,528
Effective yield	-	*3.69*	*4.26*	*4.64*	*4.63*	-	-
Other	-	-	-	-	-	11,798	11,798
	600,468	146,345	59,454	39,921	107,748	11,798	965,734
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to customers	757,694	112,523	20,105	1,377	6,129	-	897,828
Effective yield	-	*.92*	*1.46*	*2.12*	*2.60*	-	-
Subordinated debentures	4,270		-	-	-	-	4,270
Effective yield	-	-	-	-	-	-	-
Lease Liability	-	1,145	1,061	939	1,602	-	4,747
Effective yield	-	*3.25*	*3.25*	*3.25*	*3.25*	-	-
Other	-	-	-	-	-	12,541	12,541
Shareholders' equity	-	-	-	-	-	46,348	46,348
	761,964	113,668	21,166	2,316	7,731	58,889	965,734
Net 2020 Position	(161,496)	32,677	38,288	37,605	100,017	(47,091)	-

2019

	Floating rate $	Less than 1 year $	1 to 2 years $	2 to 3 years $	Over 3 years $	Non-interest rate sensitive $	Total $
ASSETS							
Cash and cash equivalents	202,685	-	-	-	-	-	202,685
Effective yield	-	-	-	-	-	-	-
Interest-bearing deposits	-	-	-	-	-	-	-
with financial institutions	-	75,798	-	-	-	-	75,798
Effective yield	-	*2.45*	-	-	-	-	-
Mortgage loans	10,393	32,319	18,276	13,605	25,559	-	100,152
Effective yield	-	*3.26*	*3.15*	*3.21*	*3.43*	-	-
Personal loans	11,203	852	453	196	81	-	12,785
Effective yield	-	*12.66*	*12.31*	*11.99*	*8.00*	-	-
Business loans	121,031	47,309	21,772	33,712	49,156	-	272,980
Effective yield	-	*4.09*	*4.65*	*4.26*	*4.85*	-	-
Other	-	-	-	-	-	7,770	7,770
	345,312	**156,278**	**40,501**	**47,513**	**74,796**	**7,770**	**672,170**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to customers	482,618	107,650	7,934	5,972	6,814	-	610,988
Effective yield	-	*1.59*	*2.45*	*2.17*	*2.57*	-	-
Subordinated debentures	-	4,233	-	-	-	-	4,233
Effective yield	-	*6.0*	-	-	-	-	-
Other	-	-	-	-	-	13,026	13,026
Shareholders' equity	-	-	-	-	-	43,923	43,923
	482,618	**111,883**	**7,934**	**5,972**	**6,814**	**56,949**	**672,170**
Net 2019 Position	**(137,306)**	**44,395**	**32,567**	**41,541**	**67,982**	**(49,179)**	**-**

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

(e) Foreign exchange risk

The Bank's operations are subject to foreign exchange risk exposures arising from transactions denominated in a foreign currency. The Bank's objective with respect to foreign exchange risk is to minimize the impact of the volatility related to financial assets and liabilities denominated in a foreign currency where possible through effective cash flow management. Foreign currency exchange risk is limited to the portion of the Bank's business transactions denominated in currencies other than the Canadian dollar. The Bank's only foreign exchange risk arises with respect to the U.S. dollar. On an ongoing basis, management monitors changes in foreign currency exchange rates and considers long-term forecasts to assess the potential cash flow impact to the Bank.

The table that follows provides an indication of the Bank's exposure to changes in the value of the U.S. dollar relative to the Canadian dollar as at October 31, 2020. The analysis is based on financial and monetary assets and liabilities denominated in U.S. dollars at the end of the reporting period ("statement of financial position exposure") and U.S. dollar denominated revenue and operating expenses during the year ("operating exposure").

Based on the Bank's foreign currency exposures noted above, with other variables unchanged, a ±5% change in the Canadian dollar would have impacted net income before income taxes as follows:

	Approximate Canadian dollars	
	2020	2019
	$	$
Exposure in financial assets	**8,727**	1,709
Exposure in financial liabilities	**8,392**	1,298
Net statement of financial position exposure	**531**	411
Change in Canadian dollar rate	**±5%**	±5%
Increase (decrease) in comprehensive income	**27 (27)**	**21 (21)**

(f) Capital management

The Bank manages its capital considering both regulatory and economic capital.

Regulatory capital

The Bank manages its capital under guidelines established by OSFI. The regulatory capital guidelines measure capital in relation to credit, market and operational risks. The Bank has a capital management policy, procedures and controls that it utilizes to achieve its goals and objectives.

The Bank's objectives include:

- Ensure that the quality and quantity of capital is adequate, at a minimum, to meet all applicable regulatory requirements; and
- Provide that at least half of the Bank's capital is permanent, free from mandatory fixed charges and subordinate to the rights of depositors and other creditors.

The Bank's total capital consists of one tier of capital approved under OSFI's regulatory capital guidelines. As at October 31, 2020 and 2019, Tier 1 capital includes items such as common shares and retained earnings.

During the years ended October 31, 2020 and 2019, the Bank complied with the capital guidelines for capital ratios and asset-to- capital multiple. This guideline is based on the International *Convergence of Capital Measurement and Capital Standards – A Revised Framework* ["Basel II"] issued by the Basel Committee on Banking Supervision.

The Bank's regulatory capital position as at October 31, 2020 and 2019 was as follows:

	OSFI Target	2020	2019
Common Equity Tier 1 Capital		**$45,097**	$42,319
Common Equity Tier 1 Capital Ratio	**7.0%**	**11.7%**	11.5%
Tier 1 Capital		**$45,097**	$42,319
Tier 1 Capital Ratio	**8.5%**	**11.7%**	11.5%
Total Capital[1]		**$49,367**	$46,552
Total Capital Ratio[2]	**10.5%**	**12.8%**	12.7%
Leverage Ratio[3]		**5.5%**	**6.3%**

1 Tier 1 capital ratio is calculated as: Tier 1 capital divided by risk-weighted assets ["RWA"].

2 Total capital ratio is calculated as: total capital divided by RWA.

3 The leverage ratio is calculated as: Tier 1 capital divided by total assets plus off-balance sheet credit instruments, such as certain letters of credit and guarantees.

6. CASH AND CASH EQUIVALENTS

	2020 $	2019 $
Cash on hand	3,210	3,554
Cash with other financial institutions	293,528	199,131
Treasury bills	144,999	-
	441,737	202,685

7. INTEREST-BEARING DEPOSITS WITH FINANCIAL INSTITUTIONS

	2020 $	2019 $
Term deposit bearing interest at 2.35% per annum, maturity date of November 12, 2019		10,000
Term deposit bearing interest at 2.35% per annum, maturity date of December 11, 2019		10,000
Term deposit bearing interest at 2.35% per annum, maturity date of January 13, 2020		10,000
Term deposit bearing interest at 2.35% per annum, maturity date of February 12, 2020		10,000
Term deposit bearing interest at 2.35% per annum, maturity date of May 11, 2020		5,000
Term deposit bearing interest at 2.30% per annum, maturity date of June 12, 2020		5,000
Term deposit bearing interest at 2.30% per annum, maturity date of July 27, 2020		5,000
Term deposit bearing interest at 2.30% per annum, maturity date of August 22, 2020		10,397
Term deposit bearing interest at 2.30% per annum, maturity date of August 22, 2020		10,401
Term deposit bearing interest at 1.20% per annum, maturity date of August 22, 2021	10,637	-
Term deposit bearing interest at 1.20% per annum, maturity date of August 22, 2021	10,641	-
Term deposit bearing interest at 1.00% per annum, maturity date of April 9, 2021	10,000	-
Term deposit bearing interest at 1.15% per annum, maturity date of April 9, 2021	10,000	-
Term deposit bearing interest at 1.00% per annum, maturity date of April 9, 2021	10,000	-
Term deposit bearing interest at 1.15% per annum, maturity date of April 9, 2021	10,000	-
Term deposit bearing interest at 2.40% per annum, maturity date of January 28, 2021	5,000	-
Term deposit bearing interest at 1.55% per annum, maturity date of May 11, 2021	5,117	-
Term deposit bearing interest at 0.90% per annum, maturity date of June 14, 2021	5,115	-
	76,510	75,798

8. LOANS AND ADVANCES TO CUSTOMERS

2020

	Gross amount of loans $	Stage 1 allowance $	Stage 2 allowance $	Stage 3 allowance $	Net amount of loans $	Gross impaired loans $
Mortgage loans	99,914	36	107	-	99,771	273
Personal loans	13,512	86	26	10	13,390	31
Business loans	324,709	1,049	1,132	-	322,528	-
	438,135	1,171	1,265	10	435,689	304

Information on the specific and collective allowance from the comparative period is as follows:

2019

	Gross amount of loans $	Stage 1 allowance $	Stage 2 allowance $	Stage 3 allowance $	Net amount of loans $	Gross impaired loans $
Mortgage loans	100,192	34	6	-	100,152	273
Personal loans	12,882	78	9	10	12,785	67
Business loans	274,437	1,038	419	-	272,980	-
	387,511	1,150	434	10	385,917	340

Mortgage loans include $53,594 [2019 – $54,002] of insured loans. Business loans include $22,275 [2019 – $15,813] of government guaranteed loans.

Financial assets qualifying for derecognition

Under the Canada Emergency Business Account (CEBA) Program, the Bank provides loans to eligible businesses based on the requirements of this government program. The Bank receives an administration fee to recover the costs to administer the program for the Government of Canada. Loans issued under the program are not recognized on the Bank's Consolidated Statement of Financial Position, as the Bank transfers substantially all the risks and rewards in respect of the loans to the Government of Canada. As of October 31, 2020, the Bank had provided approximately 55 customers [2019 – nil] with CEBA loans and had funded approximately $2,200 [2019 – $nil] in loans under the program.

The following table outlines the movement in loss allowance by category:

	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Balance at November 1, 2018 restated for IFRS 9	**836**	**781**	**161**	**1,778**
Provision for credit losses (recovery)	(103)	(59)	-	(162)
Transfers (to) from Stage 1	127	(127)	-	-
Transfers (to) from Stage 2	-	53	-	53
Transfers (to) from Stage 3	-	-	(53)	(53)
Derecognition of financial assets	(103)	(194)	(98)	(395)
New originations and remeasurements	393	-	-	393
Write-offs	-	(20)	-	(20)
Balance at October 31, 2019	**1,150**	**434**	**10**	**1,594**
Provision for credit losses	229	761	-	990
Transfers (to) from Stage 1	(165)	165	-	-
Transfers (to) from Stage 2	9	(9)	-	-
Transfers (to) from Stage 3	-	-	-	-
Derecognition of financial assets	(205)	(66)	-	(271)
New originations	153	-	-	153
Write-offs	-	(20)	-	(20)
Balance at October 31, 2020	**1,171**	**1,265**	**10**	**2,446**

Impairment allowance for loans and advances to customers

Business loans

The table below shows the credit quality and the carrying amount of business loans based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

2020	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Internal rating grade				
Performing				
Satisfactory (1 - 5)	284,747	36,310	-	321,057
Watch (6)	594	2,997	-	3,591
Classified (7-8)	-	61	-	61
Non-performing				
Individually impaired (9)	-	-	-	-
Total	**285,341**	**39,368**	**-**	**324,709**
Loss allowance	1,049	1,132	-	2,181
Carrying amount	**284,292**	**38,236**	**-**	**322,528**

2019	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Internal rating grade				
Performing				
Satisfactory (1 - 5)	246,480	14,627	-	261,107
Watch (6)	9,287	3,344	-	12,631
Classified (7-8)	581	118	-	699
Non-performing				
Individually impaired (9)	-	-	-	-
Total	**256,348**	**18,089**	**-**	**274,437**
Loss allowance	1,038	419	-	1,457
Carrying amount	**255,310**	**17,670**	**-**	**272,980**

Mortgage and personal loans

The table below shows the credit quality and the carrying amount of mortgage and personal loans based on the Bank's internal rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

2020	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Performing				
Not past due	109,323	1,821	-	111,144
Non-performing				
1-89 days past due	-	1,978	-	1,978
90+ days past due	-	-	304	304
Total	**109,323**	**3,799**	**304**	**113,426**
Loss allowance	122	133	10	265
Carrying amount	**109,201**	**3,666**	**294**	**113,161**

2019	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Performing				
Not past due	109,441	1,877	-	111,318
Non-performing				
1-89 days past due	-	1,416	-	1,416
90+ days past due	-	-	340	340
Total	**109,441**	**3,293**	**340**	**113,074**
Loss allowance	112	15	10	137
Carrying amount	**109,329**	**3,278**	**330**	**112,937**

As at October 31, 2020, the collateral held against total gross stage 3 loans is $273 [2019 - $273] or 89% [2019 – 80%] of total gross stage 3 loans.

Forward-Looking Information

Relevant macroeconomic factors are incorporated in the development of the ECL model as appropriate. Additional macroeconomic factors that are industry-specific are also incorporated where relevant. The key macroeconomic variables that are incorporated in the Banks ECL model include credit card delinquency rates for consumer loans and arrears rates for mortgages. For commercial loans, the key macroeconomic factors include gross domestic product, unemployment rates, interest rates, and credit spreads. Refer to Note 4 for a discussion on how forward-looking information is considered in determining whether there has been a significant increase in credit risk and the measurement of the ECL.

The Bank has utilized forward-looking macroeconomic forecasts of TD Bank as part of the ECL process. A base economic forecast is developed along with an upside and downside forecast which are estimates of realistically possible economic conditions. These forecasts are reviewed each year and any substantial changes are factored into the ECL model.

Expert Credit Judgment

ECLs are recognized on initial recognition of the financial assets. Allowance for credit losses represents management's best estimate of the risk of default and ECLs on the financial assets at the balance sheet date. Management exercises expert credit judgment in assessing if an exposure has experienced significant increase in credit risk since initial recognition and in determining the amount of ECLs at each reporting date by considering reasonable and supportable information that is not already included in the quantitative models. Changes in these assumptions would have a direct impact on the provision for credit losses and may result in a change in the allowance for credit losses.

Impact of COVID-19

As a result of COVID-19 there is a higher degree of uncertainty in determining reasonable and supportable forward-looking information used in assessing significant increase in credit risk and measuring ECLs. The current environment is subject to rapid change and to the extent that certain effects of COVID-19 are not fully incorporated into the model calculations, increased temporary quantitative and qualitative adjustments have been applied. This includes borrower credit scores, industry specific COVID-19 impacts, payment support initiatives introduced by the Bank and governments, and the persistence of the economic shutdown, the effects f which are not yet fully reflected in the quantitative models. The Bank has performed certain additional qualitative portfolio and loan level assessments of significant increase in credit risk.

Sensitivity Analysis

The allowance for credit losses is sensitive to the inputs used in the developed models, macroeconomic variables in the forward- looking forecasts and respective probability weightings in determining the probability-weighted ECL, and other factors considered when applying expert credit judgement. Changes in these inputs, assumptions, models, and judgements would have an impact on the assessment for significant increase in credit risk and the measurement of the ECL.

The following table presents the base ECL scenario compared to the probability-weighted ECL derived from using base, good, and bad cases and weighting them based on probability of occurrence. The Bank has assigned a weight of 10% to the good case, 15% to the bad case and 75% to the base case. These weights were adjusted during the year to reflect a plausible scenario of COVID-19 impacts, given the lack of comparable historical data for a shock of this nature.

Change from Probability-Weighted to Base ECL

	As at October 31, 2020
Probability-weighted ECL	$2,446
Base case ECL	1,905
Difference – in amount	$541
Difference – in percentage	22.1%

The allowance for credit losses for performing loans consists of an aggregate amount of Stage 1 and Stage 2 probability-weighted ECL which are twelve-month ECLs and lifetime ECLs respectively. Transfers from Stage 1 to Stage 2 result when there is a significant increase in credit risk since the origination of the loan. The following table presents the estimated impact of calculating the ECL for all loans using the twelve-month ECLs compared to the current aggregate probability-weighted ECL.

Incremental Lifetime ECL Impact

	As at October 31, 2020
Aggregate Stage 1 and 2 probability-weighted ECL	$2,446
All performing loans using 12-month ECL	1,127
Difference – in amount	$1,319
Difference – in percentage	53.9%

Loans past due but not impaired

A loan is past due when a counterparty has failed to make a payment by the contractual due date. The following table provides aging information for loans that are past due but not impaired. A grace period has been incorporated if it is common to a product type and provided to the counterparties. The grace period represents the additional time period [e.g. three days] beyond the contractual due date during which a counterparty is permitted to make the payment without the loan being classified as past due. During the year, and due to the onset of the COVID-19 pandemic, the Bank has granted additional grace periods based on the request of customers to facilitate short-term needs caused by the pandemic. As at October 31, 2020, 18 customers with outstanding loan balances of $25,200 were granted this additional grace period. Notwithstanding any other changes in credit risk, this does not in and of itself trigger a significant increase in credit risk since initial recognition (which would result in stage migration) and does not result in default or additional days past due.

Gross amount of loans past due but not impaired as at October 31, 2020:

	1-30 days	31-60 days	61-89 days	Total $
Mortgage loans	1,129	79	442	1,650
Personal loans	181	17	31	229
Business loans	257	-	-	257
	1,567	**96**	**473**	**2,136**

Gross amount of loans past due but not impaired as at October 31, 2019:

	1-30 days	31-60 days	61-89 days	Total $
Mortgage loans	778	46	-	824
Personal loans	290	39	-	329
Business loans	471	-	-	471
	1,539	**85**	**-**	**1,624**

9. OTHER ASSETS

Other assets consist of the following:

	2020 $	2019 $
Interest receivable	1,682	1,669
Prepaid expenses and deferred costs	585	569
	2,267	**2,238**

10. OTHER LIABILITIES

Other liabilities consist of the following:

	2020 $	2019 $
Interest payable	708	855
Other liabilities	11,833	11,953
	12,541	**12,808**

11. RIGHT OF USE ASSETS

COST – PREMISE LEASES	
Balance at November 1, 2019 (note 3)	5,306
Additions	379
Balance at October 31, 2020	**5,685**
ACCUMULATED AMORTIZATION	
Balance at November 1, 2019	-
Amortization for the year	1,028
Balance at October 31, 2020	**1,028**
CARRYING AMOUNTS	
At October 31, 2020	**4,657**

12. PROPERTY AND EQUIPMENT

	Furniture, fixtures and other equipment	Leasehold improvements	Computer equipment	Branch prototype project	Total $
COST					
Balance at November 1, 2018	775	3,697	535	263	5,270
Additions	170	1,215	432	10	1,827
Balance at October 31, 2019	945	4,912	967	273	7,097
Balance at November 1, 2019	**945**	**4,912**	**967**	**273**	**7,097**
Additions	**-**	**7**	**77**	**-**	**84**
Balance at October 31, 2020	**945**	**4,919**	**1,044**	**273**	**7,181**
ACCUMULATED DEPRECIATION					
Balance at November 1, 2018	577	2,006	214	118	2,915
Depreciation for the year	68	395	234	29	726
Balance at October 31, 2019	645	2,401	448	147	3,641
Balance at November 1, 2019	**645**	**2,401**	**448**	**147**	**3,641**
Depreciation for the year	**60**	**397**	**255**	**31**	**743**
Balance at October 31, 2020	**705**	**2,798**	**703**	**178**	**4,384**
CARRYING AMOUNTS					
At October 31, 2019	300	2,511	519	126	3,456
At October 31, 2020	**240**	**2,121**	**341**	**95**	**2,797**

13. INTANGIBLE ASSETS

	Website development	Computer systems	Small market branch	Total $
COST				
Balance at November 1, 2018	76	5,436	114	5,626
Acquisitions	-	333	174	507
Balance at October 31, 2019	76	5,769	288	6,133
Balance at November 1, 2019	**76**	**5,769**	**288**	**6,133**
Acquisitions	**-**	**176**	**195**	**371**
Balance at October 31, 2020	**76**	**5,945**	**483**	**6,504**
ACCUMULATED AMORTIZATION				
Balance at November 1, 2018	68	3,246	41	3,355
Amortization for the year	8	651	43	702
Balance at October 31, 2019	76	3,897	84	4,057
Balance at November 1, 2019	**76**	**3,897**	**84**	**4,057**
Amortization for the year	**-**	**717**	**103**	**820**
Balance at October 31, 2020	**76**	**4,614**	**187**	**4,877**
CARRYING AMOUNTS				
At October 31, 2019	-	1,872	204	2,076
At October 31, 2020	**-**	**1,331**	**296**	**1,627**

14. LEASE LIABILITY

	$
Balance, November 1, 2019 (note 3)	5,306
Additions	379
Interest	169
Repayments	(1,107)
Balance, October 31, 2020	**4,747**

The maturity of the undiscounted lease liability as at October 31, 2020, is as follows:

	$
2021	1,126
2022	1,043
2023	939
2024	542
2025	417
Thereafter	1,176
	5,243

15. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to directly or indirectly control the other party or exercise significant influence over the other party in making financial or operational decisions.

All related party transactions are measured at exchange amount.

Loans to directors and employees

At October 31, 2020, loans provided to the Bank's directors and employees amounted to $4,990 [2019 - $4,737]. Loans provided to employees are at discounts to customer rates.

Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank's key management personnel include all directors and executives who have the authority and responsibility for planning, executing, and controlling the activities of the Bank. Key management personnel compensation for the year comprised:

	2020 $	2019 $
Salaries, director fees and short-term benefits	**1,773**	1,725

Amount owed from related parties (key management):

	2020 $	2019 $
Maximum balance during the year	**1,358**	1,321
Balance as at October 31	**1,216**	1,222

The above-mentioned outstanding balances arose from the ordinary course of business. The interest rates charged to employees are at discounts to customer rates. Majority of the outstanding balances at the year-end are secured. There have been no guarantees provided or received for any related party receivables or payables. For the year ended October 31, 2020, the Bank has not made any provision for doubtful debts relating to amounts owed by related parties [2019 – $nil].

16. SUBORDINATED DEBENTURES

Subordinated debentures are direct unsecured obligations of the Bank and are subordinated in right of payment to the claims of depositors and certain other creditors. Redemptions, cancellations, exchanges, and modifications of subordinated debentures qualifying as regulatory capital are subject to the consent and approval of OSFI. The debentures contain non-viability contingent capital (NVCC) provisions necessary for the debentures to qualify as Tier 2 regulatory capital. Under the NVCC provisions, the debentures are convertible into a variable number of common shares upon either of two events: (i) the public announcement by OSFI that the Bank has ceased, or is about to cease, to be viable; or (ii) a federal or provincial government of Canada publicly announces that the Bank has accepted or agreed to accept a capital injection, or equivalent support, from the federal government or any provincial government or political subdivision or agent thereof without which the Bank would have been determined by OSFI to be non-viable.

Maturity date	Interest Rate (%)	Earliest par redemption date	2020	2019
July 2025	**4.9%**[1]	**August 2020**	**4,270**	4,233
			4,270	4,233

[1] Subsequent to the earliest par redemption date the rate of 3-month CDOR plus 4.40% which was 4.9% at October 31, 2020. Prior to August 2020 the rate was fixed at 6%.

The aggregate remaining maturities of the Bank's subordinated debentures are as follows:

Maturities	2020 $	2019 $
Within 1 year	**-**	-
Over 1 year to 3 years	**-**	-
Over 3 years to 4 years	**-**	-
Over 4 years to 5 years	**4,500**	-
Over 5 years	**-**	4,500
	4,500	4,500

17. ISSUED CAPITAL

Issued capital consists of the following:

	2020 #	2020 $	2019 #	2019 $
Authorized				
Unlimited common shares				
Issued and outstanding				
Common shares				
Balance, beginning of year	**15,010,005**	**30,030**	13,627,597	26,041
Share issuance	**58,250**	**182**	1,382,408	4,145
Share issue costs		**-**		(156)
Balance, end of year	**15,068,255**	**30,212**	15,010,005	30,030
Total issued capital	**15,068,255**	**30,212**	**15,010,005**	**30,030**

Under the terms of the Bylaw of the Bank, a minimum of 67% of all common shares outstanding must be owned by Indigenous Investors as defined in the Bylaw. The common shares have no par value.

Dividends of $374 [2019 – $299] were declared and paid during the year of $0.025 per share [2019 - $0.02 per share]. Dividends of $182 [2019 - $145] were reinvested through the dividend reinvestment program resulting in the issuance of 58,250 shares [2019 – 49,077] shares.

18. INCOME TAXES

Significant components of the Bank's deferred tax liabilities are as follows:

	2020 $	2019 $
Deferred tax asset (liability)		
Impairment for credit losses	**658**	427
Property and equipment	**(115)**	(184)
Intangible assets	**(376)**	(505)
Share based compensation	**142**	108
Tax loss carry forward	**67**	-
Net deferred tax liability	**376**	(154)

Current and deferred income taxes are computed for the Bank by applying the applicable statutory tax rates:

	2020 $	2019 $
Current income tax charge	**1,396**	1,159
Deferred income tax expense relating to origination and reversal of temporary differences	**(530)**	(190)
Income tax expense reported in the statements of comprehensive Income through profit or loss	**866**	969

The reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Bank's effective income tax rate for the years ended October 31, 2020 and October 31, 2019 is as follows:

	2020 $	2020 %	2019 $	2019 %
Income before income taxes	**3,483**	**-**	3,602	-
Income taxes at statutory rate	**936**	**26.90**	967	26.85
Other	**(70)**	**(2.04)**	2	.05
Income tax expense and effective tax rate	**866**	**24.86**	969	26.90

19. FINANCIAL ASSETS AND LIABILITIES

Several of the Bank's significant financial instruments, such as loans and deposits, lack an available trading market as they are not typically exchanged. Therefore, these instruments have been valued assuming they will not be sold, using present value or other suitable techniques and are not necessarily representative of the amounts realizable in an immediate settlement of the instrument.

Changes in interest rates are the main cause of changes in the fair value of the Bank's financial instruments. The carrying value of loans and deposits are not adjusted to reflect increases or decreases in fair value due to interest rate changes as the Bank's intention is to realize their value over time by holding them to maturity.

Fair value

The table below sets out the carrying amounts and estimated fair values of the Bank's financial assets and liabilities:

Statement of financial position	2020 Carrying value $	2020 Estimated fair value $	2019 Carrying value $	2019 Estimated fair value $
Financial assets				
Interest-bearing deposits with financial institutions	76,510	76,510	75,798	75,798
Loans and advances to customers	435,689	439,435	385,917	389,347
Derivative financial instruments	74	74	-	-
Financial Liabilities				
Due to customers	897,828	898,240	610,988	610,855
Lease liability	4,747	4,747	-	-
Other liabilities	12,541	12,541	-	-
Subordinated debentures	4,270	4,493	4,233	4,470
Derivative financial instruments	-	-	64	64

Carrying values of loans and advances to customers and due to customers represent the amortized cost. The aggregate of the estimated fair value amounts presented does not represent management's estimate of the underlying value of the Bank. Moreover, fair values disclosed represent estimates of values made at a specific point in time and may not be reflective of future fair values.

Fair values are based on the following methods of valuation and assumption:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are based on observable market data, either directly or indirectly.

Level 3: techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Derivative financial instruments fall in the Level 2 category. For fixed rate loans, the fair value is determined by discounting the expected future contractual cash flows of these loans at interest rates estimated by using appropriate swap curve rates for the remaining term (Level 3). For fixed rate term deposits, the fair value is determined by discounting the expected future contractual outflows, using management's best estimates of average market interest rates currently offered for deposits with similar remaining terms (Level 3).

In the case of items that are short-term in nature or contain variable rate features, fair value is considered to be equal to carrying value. The estimated fair value reflects changes in general interest rates that have occurred since the loans and borrowings were originated.

The table below presents the fair values by level within the fair value hierarchy for those assets and liabilities not carried at fair value:

	Level 1 $	Level 2 $	2020 Level 3 $
Financial assets			
Loans and advances to customers	-	-	285,978
Financial liabilities			
Due to customers	-	-	140,545
	-	-	426,343

	Level 1 $	Level 2 $	2019 Level 3 $
Financial assets			
Loans and advances to customers	-	-	252,278
Financial liabilities			
Due to customers	-	-	128,243
Subordinated debentures	-	-	4,470
	-	-	384,991

During the reporting period ended October 31, 2020 and 2019, there were no transfers between leveling categories.

20. DERIVATIVE FINANCIAL INSTRUMENTS

Effective November 1, 2010, the Bank entered into a fixed for floating amortizing interest rate swap with TD Bank in order to hedge against interest rate fluctuations. No ineffectiveness from the hedge was recognized in net income during the year. A summary of the interest rate swap as at October 31, 2020 is provided below:

Counterparty	Notional Amount $	Maturity Date	Paying rate index	Receiving rate index	Paying rate	Receiving rate	2020 Fair value (negative) $
TD Bank	767	1-Nov-20	Fixed	3-month CDOR	2.521%	CDOR+1.42%	(2)
TD Bank	6,327	1-Dec-21	Fixed	1-month CDOR	3.750%	CDOR+2.29%	(72)

Counterparty	Notional Amount $	Maturity Date	Paying rate index	Receiving rate index	Paying rate	Receiving rate	2019 Fair value (negative) $
TD Bank	2,275	1-Nov-20	Fixed	3-month CDOR	2.521%	CDOR+1.42%	20
TD Bank	596	15-May-20	Fixed	1-month CDOR	4.400%	CDOR+3.29%	1
TD Bank	6,607	1-Dec-21	Fixed	1-month CDOR	3.750%	CDOR+2.29%	43

21. GUARANTEES

Letters of guarantee have been provided to third parties by the Bank to make payments on behalf of customers up to $6,478 [2019 – $2,472].

In the normal course of operations the Bank, as set out in its Bylaws, indemnifies directors and officers in certain circumstances, to the extent permitted by law, against certain claims that may be made against them as a result of their services to the Bank. The Bank may be required to indemnify directors, officers and such person's heirs or legal representatives for costs incurred as a result of civil, criminal or administrative actions to which such person is made a party in certain circumstances. The duty of the Bank to indemnify is further contingent on the director or officer meeting certain criteria in the By-laws, such as to have acted honestly and in good faith with a view to the best interest of the Bank. The nature of the indemnification prevents the Bank from making a reasonable estimate of the maximum potential amount that the Bank would be required to pay such persons. No amount has been accrued in the financial statements with respect to this indemnification.

22. SHARE-BASED COMPENSATION

Senior executives of the Bank receive remuneration in the form of share-based payment transactions comprising of both Performance Share Units ("PSU") and Phantom Share Options ("PSO"). The cost of cash-settled transactions is measured initially at fair value at the grant date using a pricing model, taking into accounts the terms and conditions upon which the instruments were granted and the estimated number of PSUs and PSOs expected to vest.

The Bank recognizes the services received, and a liability to pay for those services, as the employee renders service. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognized in the income statement in staff expenses.

Expenses arising from cash–settled PSU share–based payment transactions amount to $69 [2019 – $nil]. The carrying amount of the liability (Note 10) relating to the cash–settled options at the statement of financial position date and prior year is $69 [2019 – $nil].

Expenses arising from cash–settled PSO share–based payment transactions amount to $266 [2019 – $136]. The carrying amount of the liability (Note 10) relating to the cash–settled options at the statement of financial position date and prior year is $592 [2019 – $400].