

**Mega International
Commercial Bank Co., Ltd.,
Canada Branch**

Financial Statements

December 31, 2021

(in thousands of Canadian dollars, unless
otherwise noted)



Independent auditor's report

To the Principal Officer of Mega International Commercial Bank Co., Ltd., Canada Branch

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Mega International Commercial Bank Co., Ltd., Canada Branch (the Branch) as at December 31, 2021 and its financial performance and its cash flows for the year then ended in accordance with the basis of accounting described in note 2 to the financial statements.

What we have audited

The Branch's financial statements comprise:

- the statement of financial position as at December 31, 2021;
- the statement of income and comprehensive income for the year then ended;
- the statement of changes in head office account for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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

Independence

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

Emphasis of matter – basis of accounting and restriction on distribution and use

We draw attention to note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Branch to meet the requirements of Section 601(3) of the Bank Act. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Branch and the Superintendent of Financial Institutions Canada.

We neither assume nor accept any responsibility or liability to any other third party in respect of this report.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Our report should not be distributed to or used by parties other than the Branch or the Superintendent of Financial Institutions Canada. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the basis of accounting described in note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch'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 Branch'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 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 Branch to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Branch to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
February 28, 2022

Mega International Commercial Bank Co., Ltd., Canada Branch

Statement of Financial Position

As at December 31, 2021

(in thousands of Canadian dollars, unless otherwise noted)

	2021 \$	2020 \$
Assets		
Cash resources		
Cash	37	34
Deposits with regulated financial institutions (note 4)	93,648	59,069
	<u>93,685</u>	<u>59,103</u>
Loans (note 5)		
Mortgage	50,535	63,852
Other	189,898	143,255
	<u>240,433</u>	<u>207,107</u>
Other		
Cheques and other items in transit	430	328
Due from related parties (note 13)	104	104
Property and equipment (note 6)	3,608	3,880
Other assets (note 7)	984	1,026
	<u>5,126</u>	<u>5,338</u>
	<u>339,244</u>	<u>271,548</u>
Liabilities		
Deposits (note 8)		
Payable on demand	30,536	40,997
Payable after notice	4,475	5,661
Payable on a fixed date	169,211	107,087
	<u>204,222</u>	<u>153,745</u>
Deferred income taxes (note 11)	<u>1</u>	<u>8</u>
Other		
Cheques and other items in transit	260	314
Due to related parties (note 13)	130,879	114,435
Other liabilities (note 9)	2,478	2,330
	<u>133,617</u>	<u>117,079</u>
Head office account	<u>1,404</u>	<u>716</u>
	<u>339,244</u>	<u>271,548</u>

Approved by the Board of Directors

Director

Director

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

Mega International Commercial Bank Co., Ltd., Canada Branch

Statement of Income and Comprehensive Income

For the year ended December 31, 2021

(in thousands of Canadian dollars, unless otherwise noted)

	2021 \$	2020 \$
Interest income		
Loans	6,923	7,225
Deposits with regulated financial institutions	159	510
Other	1	1
	<hr/> 7,083	<hr/> 7,736
Interest expense – deposits	<hr/> 710	<hr/> 1,905
Net interest income	6,373	5,831
Recovery of credit-impaired loans (note 5)	<hr/> -	<hr/> 5
	6,373	5,836
Other income (note 10)	<hr/> 804	<hr/> 728
Net interest and other income	<hr/> 7,177	<hr/> 6,564
Non-interest expense		
Salaries and benefits	3,739	3,408
Premises and equipment – including depreciation	820	821
Other	798	1,196
	<hr/> 5,357	<hr/> 5,425
Income before provision for income taxes	1,820	1,139
Provision for income taxes (note 11)	<hr/> 416	<hr/> 423
Net income and comprehensive income for the year	<hr/> 1,404	<hr/> 716

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

Mega International Commercial Bank Co., Ltd., Canada Branch

Statement of Changes in Head Office Account

For the year ended December 31, 2021

(in thousands of Canadian dollars, unless otherwise noted)

	2021 \$	2020 \$
Balance – Beginning of year	716	379
Transfer to head office	(716)	(379)
Net income and comprehensive income for the year	1,404	716
Balance – End of year	<u>1,404</u>	<u>716</u>

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

Mega International Commercial Bank Co., Ltd., Canada Branch

Statement of Cash Flows

For the year ended December 31, 2021

(in thousands of Canadian dollars, unless otherwise noted)

	2021 \$	2020 \$
Cash provided by (used in)		
Operating activities		
Net income and comprehensive for the year	1,404	716
Adjustments for non-cash items		
Recovery of credit-impaired loans	-	(5)
Depreciation of property and equipment	322	318
Deferred income taxes	(7)	21
Interest expense on lease liabilities	7	11
Change in operating assets and liabilities		
Change in interest receivable	(220)	(66)
Change in interest payable	(128)	(404)
Loan – net of repayments	(33,327)	(37,537)
Deposits – net of withdrawals	50,477	(91,547)
Change in taxes payable	(105)	252
Change in other items – net	878	916
	<u>19,301</u>	<u>(127,325)</u>
Investing activities		
Acquisition of property and equipment	<u>(50)</u>	<u>(212)</u>
Financing activities		
Change in due from/to related parties	15,728	130,714
Repayment of lease liabilities	<u>(241)</u>	<u>(238)</u>
	<u>15,487</u>	<u>130,476</u>
Change in cash and cash equivalents during the year	<u>34,738</u>	<u>2,939</u>
Cash and cash equivalents – Beginning of year	<u>59,117</u>	<u>56,178</u>
Cash and cash equivalents – End of year	<u>93,855</u>	<u>59,117</u>
Represented by		
Cash	37	34
Deposits with regulated financial institutions with original maturity dates of three months or less	93,648	59,069
Cheques and other items in transit – net	<u>170</u>	<u>14</u>
	<u>93,855</u>	<u>59,117</u>

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

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Notes to Financial Statements

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(in thousands of Canadian dollars, unless otherwise noted)

1 Branch information

Mega International Commercial Bank Co., Ltd., Canada Branch (the Branch) is the Canadian branch of Mega International Commercial Bank Co., Ltd. (the Head Office). The Branch has offices located in Toronto and Vancouver. The Branch is licensed to operate as a foreign bank branch (FBB) in Canada under the Bank Act and is regulated by the Office of the Superintendent of Financial Institutions (OSFI). The Branch's registered address is 4950 Yonge Street, Suite 1002, Toronto, Ontario, Canada M2N 6K1.

2 Basis of accounting

The financial statements are prepared in accordance with Section 601 (3) of the Bank Act, which states that, except as otherwise specified by the OSFI, the financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as defined in the Handbook of Chartered Professional Accountants of Canada (CPA Canada). The Superintendent has specified that FBBs are not separate legal entities but rather operating units of authorized foreign banks in accordance with OSFI's IFRS 9, Financial Instruments and Disclosures (IFRS 9). As such, OSFI does not require FBBs to maintain stage 1 and/or stage 2 expected credit losses (ECLs) on the books, although they may do so voluntarily. The Branch has opted not to record a stage 1 or stage 2 ECL on their books. IFRS, including the exemptions allowed by OSFI, are collectively referred to throughout the financial statements as the framework.

These financial statements were approved by the principal officer for issue on February 28, 2022.

Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Branch's functional currency.

Use of estimates and judgments

The preparation of the financial statements requires management to make estimates, judgments and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, revenue and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may differ from those estimates. Estimates, judgments and assumptions are continuously evaluated and are based on historical experience and other factors, including expectations of future events, which are believed to be reasonable.

The significant estimate on the financial statements is impairment.

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- **Impairment**

Impairment allowances are determined individually to reduce the carrying value of a loan determined to be impaired to its estimated realizable amount. Management considerations include judgments about the counterparty's financial situation and, if applicable, the net realizable value of underlying collateral. The impairment allowance includes projections of probable credit losses, net of recoveries, inherent in the portfolio at the statement of financial position date. The accuracy of this allowance depends on the assumptions used in the estimation of cash flows and the net realizable value of the collateral.

There are judgments made in determining the application of accounting principles to facts and circumstances of transactions. For 2021 and 2020, there were no significant judgments made in these financial statements.

3 **Summary of significant accounting policies**

The significant accounting policies followed in the preparation of these financial statements, including the accounting requirements of OSFI, are summarized below.

Basis of measurement

The financial statements have been prepared under the historical cost convention.

Classification of financial instruments

The Branch's classifications of financial assets and financial liabilities in accordance with IFRS 9 are as follows:

Cash equivalents	amortized cost
Deposits with regulated financial institutions	amortized cost
Loans	amortized cost
Accrued interest receivable and other receivables	amortized cost
Deposits	amortized cost, other financial liabilities
Accrued interest payable and accrued liabilities	amortized cost, other financial liabilities

The carrying amount of cash excludes accrued interest.

Management has determined that the amortized cost classification is the most appropriate category for deposits with regulated financial institutions and treasury bills because the Branch's objective is to hold these instruments in order to collect contractual cash flows, and the contractual terms of these instruments give rise on specified dates to cash flows that are solely payments of principal and interest.

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing at year-end.

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Income and expense items denominated in foreign currencies are translated into Canadian dollars at the approximate average exchange rates prevailing throughout the year or at the date of the transaction.

Realized and unrealized foreign exchange gains and losses are included in other income in the statement of income and comprehensive income.

Cash and cash equivalents

Cash includes cash on hand and demand cash deposits. Cash equivalents are short-term deposits with financial institutions with an original term to maturity of 90 days or less. Cash equivalents are classified at amortized cost to reflect regular receipts of interest on the principal amount.

Deposits with regulated financial institutions

Deposits with regulated financial institutions are recognized at amortized cost. Interest income on interest bearing deposits is recorded using the effective interest method.

Loans

Loans are measured at amortized cost and stated net of any allowance for ECLs. Interest income is recorded using the effective interest method. A loan is classified as impaired when objective evidence demonstrates there is an indication that the loan is impaired, such as default or delinquency of interest payments and in management's opinion, there is no longer reasonable assurance of timely collection, either in whole or in part, of principal or interest.

- Provisions for credit-impaired loans

OSFI has specified that authorized foreign banks are not required to maintain stage 1 and stage 2 ECLs on the books of their Canadian branch, although they may do so voluntarily, in accordance with IFRS 9. The Branch has opted to not record on their books the stage 1 and stage 2 ECLs.

- Credit-impaired financial assets

The Branch assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;

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- the restructuring of a loan or advance by the Branch on terms that the Branch would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; and
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

No interest is accrued on impaired loans.

- **Writeoffs**

Loans are written off, either partially or in full, when there is no realistic prospect of recovery. This is generally the case when the Branch determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the writeoff. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Branch's procedures for recovery of amounts due.

Property and equipment

Land is carried at cost. All other property and equipment assets are carried at cost, less accumulated amortization. Amortization is based on the asset's estimated useful life on a straight-line basis over the following terms:

Buildings	50 years
Vehicles and computer equipment	5 years
Furniture and fixtures	8 years
Leasehold improvements	term of lease

The Branch reviews its property and equipment as at each statement of financial position date for indications of impairment. Property, plant and equipment are assessed for impairment whenever there is an indication that the balance sheet carrying amount exceeds its revocable amount. The recoverable amount is determined based on the higher of the assets or cash generating unit's value in use or fair value less cost to dispose.

Leases

IFRS 16, Leases, requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Right-of-use assets are initially recognized at cost, which is comprised of the amount of the initial measurement of the corresponding lease liabilities, adjusted for any lease payments made at or prior to the commencement date of the lease, lease incentives received and initial direct costs incurred, as well as any expected costs for obligations to dismantle and remove right-of-use assets when they are no longer used. Right-

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of-use assets are depreciated on a straight-line basis over the shorter of the useful life of the right-of-use asset or the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease. If this rate cannot be readily determined, the Branch uses its incremental borrowing rate.

Income taxes

The Branch follows the asset and liability method of accounting for income taxes, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that substantive enactment or enactment occurs. The Branch establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as the Branch's experience of previous tax audits. Deferred taxes 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.

Other income

Other income includes commission earned from the provision of services and gains or losses on foreign exchange. Commission income is generally earned on a straight-line basis over the contract period. Foreign exchange gains and losses are recognized in the statement of income and comprehensive income in the period to which they relate.

Financial guarantee contracts

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortization, and the best estimate of the expenditure required to settle the obligations.

Interest rate benchmark reform

During the first quarter of 2021, we early adopted the Phase 2 amendments to IFRS 9 International Accounting Standard 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures in response to the market transition away from interbank offered rates (IBORs) to alternative benchmark rates (ABRs) as part of the IBOR reform (the Reform). The amendments provide two key reliefs that are applicable to changes undertaken as a direct consequence of the Reform and where the transition from IBORs to ABRs are transacted on an economically equivalent basis:

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- For modifications of financial instruments carried at amortized cost resulting from the Reform that are transacted on an economically equivalent basis, the amendments allow the benchmark interest rate change to be reflected prospectively in the effective interest rate of the instrument rather than as an immediate gain or loss.
- If qualifying criteria are met, hedging relationships that are directly impacted by the Reform would be able to continue hedge accounting upon transition to ABRs.

To manage the transition to ABRs, we have reviewed our loan portfolio and identified loan contracts that are impacted by the Reform and have taken steps to manage an orderly transition. As at December 31, 2021 and 2020, the Branch has syndicated loans that calculate interest using USD LIBOR. All of the syndicated loan agreements impacted contain replacement clauses to set an alternative benchmark interest rate. The administrative agent of each syndicate is responsible to determine the alternative benchmark rate selected and of notifying all participants, including the Branch.

We continue to work towards the recommended target dates for the cessation of LIBOR-based products provided by our regulators and are on track with our transition activities to move to ABRs. These target dates reflect the announcement made on March 5, 2021, when the Financial Conduct Authority, the regulator of the ICE Benchmark Administration (IBA), which administers LIBOR, announced the permanent cessation or loss of representativeness of all 35 LIBOR settings currently published by the IBA. As a result of this announcement, USD LIBOR settings to which the Branch has significant exposure will predominantly cease or lose their representativeness after June 30, 2023.

The following tables show the Branch's significant exposures to financial instruments referencing benchmark interest rates subject to the Reform that have yet to transition to ABRs and mature after June 30, 2023 for USD LIBOR instruments.

	2021 \$	2020 \$
Non-derivative financial assets (i)	61,961	71,432
Non-derivative financial liabilities	-	-
Derivative notional	-	-

(i) Non-derivative assets represents the drawn outstanding balance of syndicated loans.

The following table presents the undrawn balances of loan commitments referencing benchmark interest rates subject to the Reform.

	2021 \$	2020 \$
Authorized and commitment undrawn commitments		
USD LIBOR	13,889	8,868
Other IBOR currencies	-	-

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4 Deposits with regulated financial institutions

Deposits with regulated financial institutions are unsecured. An analysis of gross deposits with regulated financial institutions by remaining term to maturity and location of ultimate risk is as follows:

				2021
	Non-interest bearing \$	Within 3 months \$	3 to 6 months \$	Total \$
Canada	22,080	66,616	-	88,696
United States	-	4,952	-	4,952
	22,080	71,568	-	93,648
Average effective yield	0.00%	0.27%	-	0.21%
				2020
	Non-interest bearing \$	Within 3 months \$	3 to 6 months \$	Total \$
Canada	9,757	46,567	-	56,324
United States	-	2,745	-	2,745
	9,757	49,312	-	59,069
Average effective yield	0.00%	0.38%	-	0.32%

Average effective yields are based on carrying amounts and contractual interest rates.

Deposits with regulated financial institutions include amounts denominated in foreign currencies of \$21,684 (2020 – \$21,458).

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5 Loans

- i) An analysis of the Branch's loan portfolio, net of the allowance for credit losses, by category and by location of ultimate risk is as follows:

		2021		
		Gross amount \$	Impaired \$	Carrying amount \$
Canada				
	Residential mortgages	2,038	-	2,038
	Commercial mortgages	48,423	-	48,423
	Consumer loans	-	-	-
	Other business loans	181,644	-	181,644
Other				
	Residential mortgages	74	-	74
	Commercial mortgages	-	-	-
	Consumer loans	-	-	-
	Other business loans	8,254	-	8,254
		240,433	-	240,433
		2020		
		Gross amount \$	Impaired \$	Carrying amount \$
Canada				
	Residential mortgages	2,911	-	2,911
	Commercial mortgages	60,738	-	60,738
	Consumer loans	129,549	-	129,549
	Other business loans	-	-	-
Other				
	Residential mortgages	203	-	203
	Commercial mortgages	-	-	-
	Consumer loans	-	-	-
	Other business loans	13,706	-	13,706
		207,107	-	207,107

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- ii) The following table analyzes the Branch's loan portfolio by the contractual maturity dates. This analysis excludes loans classified as impaired having a gross value of \$nil (2020 – \$nil).

	2021					
	Immediately rate sensitive \$	Within 3 months \$	3 months to 1 year \$	1 to 5 years \$	Over 5 years \$	Total \$
Loans	4,589	122,919	50,109	62,816	-	240,433
Average effective yield	4.03%	3.24%	3.53%	3.76%	-	3.49%
	2020					
	Immediately rate sensitive \$	Within 3 months \$	3 months to 1 year \$	1 to 5 years \$	Over 5 years \$	Total \$
Loans	4,271	129,562	52,427	20,847	-	207,107
Average effective yield	3.42%	2.79%	3.37%	3.79%	-	3.05%

Average effective yields are based on carrying amounts and contractual interest rates, adjusted for the amortization of any deferred income. Cash interest received during the year on interest bearing instruments including loans and deposits held by the Branch was \$7,083 (2020 – \$7,736).

- iii) The OSFI has specified that authorized foreign banks are not required to maintain stage 1 and stage 2 ECLs on the books of their Canadian branch, although they may do so voluntarily, in accordance with IFRS 9. The Branch has opted to not record on their books the stage 1 and stage 2 ECLs.

Credit impairment is as follows:

	2021 \$	2020 \$
Balance – Beginning of year	-	(6)
Writeoffs – net of recoveries	-	6
Foreign exchange difference	-	-
Provision for impairment	-	-
Balance – End of year	-	-

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6 Property and equipment

The following is a breakdown of the Branch's property and equipment by category:

	Owned by the Branch					Right-of-use lease assets		
	Land \$	Buildings \$	Transportation \$	Furniture and equipment \$	Total \$	Buildings \$	Machinery \$	Total \$
Cost								
Balance at December 31, 2020	1,624	1,683	101	276	3,684	819	25	844
Additions	-	-	-	50	50	-	-	-
Disposals	-	-	-	(1)	(1)	-	-	-
Balance at December 31, 2021	1,624	1,683	101	325	3,733	819	25	844
Accumulated depreciation								
Balance at December 31, 2020	-	89	18	87	194	442	12	454
Depreciation for the year	-	34	20	41	95	221	6	227
Disposals/writedowns	-	-	-	(1)	(1)	-	-	-
Balance at December 31, 2021	-	123	38	127	288	663	18	681
Net carrying amount at December 31, 2021	1,624	1,560	63	198	3,445	156	7	163

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(in thousands of Canadian dollars, unless otherwise noted)

	Owned by the Branch					Right-of-use lease assets		
	Land \$	Buildings \$	Transportation \$	Furniture and equipment \$	Total \$	Buildings \$	Machinery \$	Total \$
Cost								
Balance at December 31, 2019	1,624	1,683	-	167	3,474	819	25	844
Additions	-	-	101	111	212	-	-	-
Disposals	-	-	-	(2)	(2)	-	-	-
Balance at December 31, 2020	1,624	1,683	101	276	3,684	819	25	844
Accumulated depreciation								
Balance at December 31, 2019	-	55	-	50	105	221	6	227
Depreciation for the year	-	34	18	39	91	221	6	227
Disposals/writedowns	-	-	-	(2)	(2)	-	-	-
Balance at December 31, 2020	-	89	18	87	194	442	12	454
Net carrying amount at December 31, 2020	1,624	1,594	83	189	3,490	377	13	390

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Leases

- i) Information relating to the Branch's profit is as follows:

	2021 \$	2020 \$
Depreciation expense on right-of-use assets	227	227
Interest expense on lease liabilities	7	11
	<u>234</u>	<u>238</u>

The amount recognized in the statement of cash flows for the Branch's leases was \$241 (2020 – \$238).

- ii) Lease liabilities

Future cash outflows related to the lease commitments are as follows:

	2021 \$	2020 \$
One year or less	170	240
Between one and five years	-	175
Greater than five years	-	-
	<u>170</u>	<u>415</u>

7 Other assets

	2021 \$	2020 \$
Accrued interest receivable	506	286
Prepaid expenses	252	361
Other	226	379
	<u>984</u>	<u>1,026</u>
Due in less than one year	984	1,026
Due in more than one year	-	-

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8 Deposits

i) The following is an analysis of the Branch's deposits by category:

	2021				
	Payable on demand		Payable after notice		
	Interest bearing \$	Non-interest bearing \$	Interest bearing \$	Non-interest bearing \$	Payable on a fixed date \$
					Total \$
Canada					
Individuals	-	-	925	-	16,647
Businesses and deposit-taking institutions	11,600	15,277	-	-	63,843
	11,600	15,277	925	-	80,490
					108,292
Average effective interest rate	0.28%	-	0.03%	-	0.26%
					0.22%
United States					
Individuals	-	-	4	-	1,090
					1,094
Average effective interest rate	-	-	0.02%	-	0.39%
					0.39%
Other countries	-	3,659	3,546	-	87,631
					94,836
Average effective interest rate	-	-	0.03%	-	0.26%
					0.24%
Total deposits	11,600	18,936	4,475	-	169,211
					204,222
Average effective interest rate	0.28%	-	0.03%	-	0.26%
					0.23%

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	2020					
	Payable on demand		Payable after notice		Payable on a fixed date	Total
	Interest bearing \$	Non-interest bearing \$	Interest bearing \$	Non-interest bearing \$	\$	\$
Canada						
Individuals	-	-	766	-	17,329	18,095
Businesses and deposit-taking institutions	26,706	12,497	-	-	30,337	69,540
	26,706	12,497	766	-	47,666	87,635
Average effective interest rate	0.19%	-	0.04%	-	0.57%	0.37%
United States						
Individuals	-	-	3	-	1,084	1,087
Average effective interest rate	-	-	0.04%	-	0.71%	0.71%
Other countries	-	1,794	4,892	-	58,337	65,023
Average effective interest rate	-	-	0.05%	-	0.51%	0.46%
Total deposits	26,706	14,291	5,661	-	107,087	153,745
Average effective interest rate	0.19%	-	0.05%	-	0.54%	0.41%

Total cash interest paid during the year by the Branch on interest bearing liabilities was \$645 (2020 – \$1,803).

Deposits payable on demand are interest bearing and non-interest bearing deposits, generally chequing accounts, where the Branch does not have the right to require notice of withdrawal. Deposits payable after notice are interest bearing deposits, generally savings accounts, where the Branch can legally require notice prior to withdrawal. Deposits payable on a fixed date are interest bearing deposits, typically term deposits, guaranteed investment certificates and similar instruments with terms ranging from one day to five years, which mature on a specified date.

Total deposits include amounts denominated in foreign currencies of \$58,070 (2020 – \$66,728).

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ii) The following table provides an analysis of deposits payable on a fixed date by contractual maturity dates:

	2021			
	Within 3 months \$	3 months to 1 year \$	1 to 5 years \$	Total \$
Deposits payable on a fixed date	110,391	58,492	328	169,211
Average effective interest rate	0.26%	0.27%	0.33%	0.26%
	2020			
	Within 3 months \$	3 months to 1 year \$	1 to 5 years \$	Total \$
Deposits payable on a fixed date	48,933	58,154	-	107,087
Average effective interest rate	0.62%	0.47%	-	0.54%

Average effective interest rates are based on carrying amounts and contractual interest rates.

9 Other liabilities

	2021 \$	2020 \$
Accrued interest payable	179	307
Lease liabilities	171	405
Accounts payable and other liabilities	2,128	1,618
	2,478	2,330

10 Other income

	2021 \$	2020 \$
Commission income	627	567
Gain on foreign exchange	89	69
Other	88	92
	804	728

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11 Income taxes

Income tax expense for the year consists of:

	2021 \$	2020 \$
Current		
Current year tax expense	423	402
Deferred		
Origination/reversal of temporary differences	(7)	21
Total income tax expense	416	423

Income tax expense differs from the amounts computed by applying the combined federal and provincial income tax rate of 26.68% (2020 – 26.68%) to pre-tax income as follows:

	2021 \$	2020 \$
Income before income taxes	1,820	1,139
Combined Canadian federal and provincial income tax rate applied to net income before income taxes	485	304
Permanent items	(2)	(5)
Other	(67)	124
Provision for income taxes	416	423

The tax effects of temporary differences that give rise to significant portions of the deferred income taxes are presented below:

	2021 \$	2020 \$
Deferred income tax liabilities		
Fixed liabilities	(1)	(8)
Total deferred income taxes	(1)	(8)
Change in deferred income taxes recognized in the statement of income and comprehensive income		
Fixed assets (liabilities)	(7)	21
Deferred tax expense (recovery)	(7)	21

The deferred tax assets (liabilities) that are expected to be realized within one year of the statement of financial position date is (\$22) (2020 – (\$22)) and the remaining balance expected to be realized is \$21 (2020 – \$14).

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12 Guarantees and credit-related commitments

Guarantees

In the normal course of business, the Branch enters into numerous guarantee agreements. The table below summarizes the maximum potential amount of future payments for significant guarantees the Branch has provided that are in effect on December 31, 2021:

	2021 \$	2020 \$
Guarantees and financial standby letters of credit	1,207	1,757
Performance guarantees	176	176
	<u>1,383</u>	<u>1,933</u>

The maximum potential amount of future payments represents the maximum risk of loss if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions, insurance policies or from collateral held or pledged.

Guarantees and financial standby letters of credit are direct credit substitutes and represent irrevocable assurances that the Branch will make payments in the event that a customer cannot meet its financial obligations to third parties. Generally, the terms of these instruments do not exceed one year.

Performance guarantees are transaction-related contingencies that back particular performance obligations rather than customers' financial obligations. Performance guarantees represent irrevocable assurances that the Branch will make payments in the event that a customer cannot meet its performance obligations to third parties. Generally, the terms of these instruments do not exceed one year.

Guarantees, financial standby letters of credit and performance guarantees carry the same credit risk, recourse and collateral security requirements as loans extended to customers.

Credit-related commitments

In the normal course of business, the Branch enters into various off-balance sheet commitments. The primary purpose of these commitments is to ensure that funds are available to customers as required and to facilitate international trade. The table below summarizes significant credit-related commitments of the Branch and the maximum amount of additional credit the Branch could be obligated to extend should contracts be fully utilized:

	2021 \$	2020 \$
Commitments to extend credit		
Original term of one year or less	30,545	34,598
Original term greater than one year	165,967	125,251
	<u>196,512</u>	<u>159,849</u>

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Documentary and commercial letters of credit are trade-related contingencies and are written undertakings by the Branch on behalf of a customer authorizing a third party, such as an exporter, to draw drafts on the Branch up to a stipulated amount under specific terms and conditions. The Branch is at risk for any drafts drawn that are not ultimately settled by the customer; however, the amounts drawn are collateralized by the related goods.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. The Branch is required at all times to make the unused portion of the authorization available, subject to certain conditions.

As many of these guarantees and commitments will expire or terminate without being drawn upon, the contract amounts are not necessarily indicative of future cash requirements or credit risk.

13 Related party transactions

In the normal course of business, the Branch enters into transactions with the Head Office and other branches of the Head Office. Such transactions are measured at the exchange amount, which is the amount agreed to by the related parties. Related party transactions included in the financial statements are on unsecured basis and are listed as follows:

	2021 \$	2020 \$
Amounts owed by related parties		
Demand deposit		
Other branches of the Head Office	104	104
Amounts owed to related parties		
Demand deposit		
Head Office	1,381	701
Notice deposit		
Head Office	37,400	1,800
Fixed deposit		
Head Office	65,000	85,000
Other branches of the Head Office	25,356	25,464
Interest income		
Other branches of the Head Office	-	23
Interest expense		
Head Office	163	426
Other branches of the Head Office	31	79

14 Key management personnel compensation

The following table indicates the compensation paid to the key management personnel of the Branch in exchange for services rendered.

	2021 \$	2020 \$
Salaries and short-term employee benefits	692	625

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15 Financial instruments and risk management

Risk management

Management has developed policies and procedures to enable it to respond to various business risks of the Branch. The principal officer reviews and approves the Branch's overall risk management policies as well as the overall internal controls.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party a financial loss. The objective of the Branch's credit risk policy is to minimize credit risk by assuming calculated risks with profitable returns. Management of this risk is performed by regular monitoring of its assets' credit quality. The Branch made provision for credit loss based on its assessment of credit quality. The maximum credit risk exposure of the Branch is equal to the gross carrying amount of the respective financial assets.

Measuring credit risk – loans

The Branch establishes a default risk rating for each counterparty for the credit facility. The default risk rating for the counterparty is determined using an internal system by the Branch and is based on a scale of grades (1 to 10). Each grade corresponds to a counterparty's probability of default.

With respect to diversification, the credit policy sets the guidelines intended to limit credit concentration by counterparty and sector of activity. The policies are periodically reviewed and approved by the Credit Committee. The following table provides additional information on the Branch's loan portfolios.

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- Portfolio of industry sector

Industry	2021			2020		
	Outstanding balance (CA\$1,000) \$	Current exposure %	Canada Branch's limit expressed as percentage of the Head Office's net worth %	Outstanding Balance (CA\$1,000) \$	Current exposure %	Canada Branch's limit expressed as percentage of the Head Office's net worth %
The Head Office Equity						
Manufacturing industries						
Food and beverage	-	-	1	-	-	1
Textile, garment, leather and related products	-	-	2	-	-	2
Coal, oil, rubber and plastic products	-	-	8	-	-	8
Chemical materials and products	-	-	3	-	-	3
Non-metal mineral products	-	-	3	-	-	3
Metal products	-	-	3	-	-	3
Electronic components	-	-	3	-	-	3
Computer, electronic and optic products	-	-	3	-	-	3
Power and mechanical equipment	-	-	2	-	-	2
Transport and automobile components	-	-	1	-	-	1
Other	-	-	1	-	-	1
Power and gas supplier	-	-	1	-	-	1
Water and antipollution	-	-	1	-	-	1
Construction	56,889	0.44	6	16,979	0.14	6
Wholesale and retail	5,648	0.04	2	1,857	0.02	2
Transportation and warehousing	41,381	0.32	2	45,219	0.38	2
Hotel and restaurant	10,139	0.08	1	1,500	0.01	1
Information and communication mediums	12,326	0.10	1	12,507	0.11	1
Finance and insurance	8,254	0.06	5	13,706	0.12	5
Real estate/mortgage	101,918	0.80	10	116,735	0.99	10
Service industries	1,328	0.01	2	537	0.01	2
Government	-	-	-	-	-	-
Individuals	3,934	-	-	-	-	-
Other	-	-	-	-	-	-
Loans excluded from lending limits	-	-	-	-	-	-
Total outstanding balance	241,817			209,040		

Concentration of credit risk for other financial assets is reflected by the relative groupings presented in note 5. The likelihood of impairment of other financial assets is considered low because the Branch only deposits monies and invests with institutions having an investment grade credit rating.

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Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The objective of the Branch's policy on interest rate risk is to minimize exposure to interest rate risk while maintaining profitable lending practices. To manage and control the interest rate risk, the Branch maintains an appropriate matching policy for its assets and liabilities. The Branch maintained its exposure to interest rate risk within an appropriate level according to its policy.

The following table provides the potential before-tax impact of an immediate and sustained 50 basis point increase in interest rates on net interest income, and the impact on net interest income will be negative if there is a 50 basis point decrease in interest rates. The sensitivity analysis assumes the impact on interest income of a 50 basis point rise across all interest bearing instruments, assuming all other factors are held constant.

- Interest rate sensitivity

	2021 \$	2020 \$
Impact of 50 basis point increase in the interest rate on net interest income for the next 12 months	(315)	(65)

Liquidity risk

The maturity analysis for financial liabilities as at December 31, 2021 is as follows:

	2021			
	3 months or less \$	3 months to 1 year \$	1 year to 5 years \$	Total \$
Deposits				
Demand and notice deposits	35,011	-	-	35,011
Fixed term deposits	110,391	58,492	328	169,211
Cheques and other items in transit	260			260
Due to related parties	130,879	-	-	130,879
Other liabilities	2,478	-	-	2,478
Guarantees	882	501	-	1,383
Undrawn commitments	2,172	28,373	165,967	196,512
	282,073	87,366	166,295	535,734

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				2020
	3 months or less \$	3 months to 1 year \$	1 year to 5 years \$	Total \$
Deposits				
Demand and notice deposits	46,658	-	-	46,658
Fixed term deposits	48,933	58,154	-	107,087
Cheques and other items in transit	314	-	-	314
Due to related parties	114,435	-	-	114,435
Other liabilities	2,155	-	175	2,330
Guarantees	882	1,051	-	1,933
Undrawn commitments	2,108	32,490	125,251	159,849
	215,485	91,695	125,426	432,606

The Branch manages its liquidity positions on a day-to-day basis in order to ensure it has sufficient cash and cash equivalents available to meet customer requirements and other obligations. This involves managing both liquid assets as well as diversifying sources of financing. Daily and monthly liquidity limits are set for different time periods. A daily liquidity report is prepared to cover the period from one to 30 days and address wholesale funding needs. A monthly liquidity report is also prepared to address all asset and liability maturities. Refer to note 8 for the deposit maturity schedule.

Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management of this risk is performed by maintaining an appropriate matching policy for foreign currency denoted assets and liabilities. The Branch has maintained its exposure to foreign exchange risk within an appropriate level according to its policy.

The following table indicates the Branch's foreign exchange risk exposure to US dollars at the statement of financial position date. The sensitivity analysis assumes all factors are held constant except for a 1% change in the US dollar exchange rate against the Canadian dollar.

	2021 \$	2020 \$
Overall overnight/intraday US\$ position – long	(19)	2

16 Pension plan

The Branch contributes to a private Canadian pension plan, which is a defined contribution pension plan. The total pension expense for the year was \$88 (2020 – \$82).

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17 Interest rate risk sensitivity

The following table summarizes the Branch's 2021 matching gap between assets and liabilities by the earlier of the contractual re-pricing or maturity date.

	2021							
	Floating rate \$	3 months or less \$	3 to 6 months \$	6 to 12 months \$	1 to 3 years \$	3 to 5 years \$	Non- rate sensitive \$	Total \$
Assets								
Cash resources	4,952	66,616	-	-	-	-	22,117	93,685
Loans	4,504	122,919	24,826	25,283	62,816	-	85	240,433
Other	104	-	-	-	-	-	5,022	5,126
	9,560	189,535	24,826	25,283	62,816	-	27,224	339,244
Liabilities								
Deposits								
Payable on demand	11,600	-	-	-	-	-	18,936	30,536
Payable after notice	4,475	-	-	-	-	-	-	4,475
Payable on a fixed date	-	110,391	22,218	36,274	328	-	-	169,211
Deferred income taxes	-	-	-	-	-	-	1	1
Other	37,400	90,356	-	-	-	-	7,265	135,021
	53,475	200,747	22,218	36,274	328	-	26,202	339,244
Excess (deficiency) of assets over liabilities	(43,915)	(11,212)	2,608	(10,991)	62,488	-	1,022	-
	2020							
	Floating rate \$	3 months or less \$	3 to 6 months \$	6 to 12 months \$	1 to 3 years \$	3 to 5 years \$	Non- rate sensitive \$	Total \$
Assets								
Cash resources	2,745	46,567	-	-	-	-	9,791	59,103
Securities	-	-	-	-	-	-	-	-
Loans	4,271	125,763	38,878	13,549	8,301	12,545	3,800	207,107
Other	104	-	-	-	-	-	5,234	5,338
	7,120	172,330	38,878	13,549	8,301	12,545	18,825	271,548
Liabilities								
Deposits								
Payable on demand	23,645	-	-	-	-	-	17,352	40,997
Payable after notice	5,661	-	-	-	-	-	-	5,661
Payable on a fixed date	-	48,933	25,117	33,037	-	-	-	107,087
Deferred income taxes	-	-	-	-	-	-	8	8
Other	1,800	110,464	-	-	-	-	5,531	117,795
	31,106	159,397	25,117	33,037	-	-	22,891	271,548
Excess (deficiency) of assets over liabilities	(23,986)	12,933	13,761	(19,488)	8,301	12,545	(4,066)	-

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18 Fair values of financial instruments

The amounts set out in the table below represent the fair values of the Branch's financial instruments using the valuation methods and assumptions described below.

The estimated fair value amounts are designed to approximate amounts at which instruments could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction. However, many of the Branch's financial instruments lack an available trading market. Therefore, fair values are based on estimates using present value and other valuation techniques that are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Because of the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

	2021		
	Fair value \$	Carrying amount \$	Fair value over book value \$
Assets			
Deposits with regulated financial institutions	93,648	93,648	-
Loans	240,437	240,433	4
Cheques and other items in transit	430	430	-
Due from related parties	104	104	-
Other assets	984	984	-
Liabilities			
Deposits	204,222	204,222	-
Cheques and other items in transit	260	260	-
Due to related parties	130,879	130,879	-
Other liabilities	2,478	2,478	-
	2020		
	Fair value \$	Carrying amount \$	Fair value over book value \$
Assets			
Deposits with regulated financial institutions	59,069	59,069	-
Loans	207,111	207,107	4
Cheques and other items in transit	328	328	-
Due from related parties	3,880	3,880	-
Other assets	1,026	1,026	-
Liabilities			
Deposits	153,745	153,745	-
Cheques and other items in transit	314	314	-
Due to related parties	114,435	114,435	-
Other liabilities	2,330	2,330	-

Due to their short-term nature, the carrying values of certain financial instruments are assumed to approximate their fair values. These financial instruments include deposits with regulated financial institutions, other assets, cheques and other items in transit and other liabilities.

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The estimated fair value of loans reflects changes in credit risk and general interest rates that have occurred since the loans were originated. The particular valuation methods used are as follows:

- For floating rate loans, fair value is assumed to be equal to carrying amounts as the interest rates on these loans automatically reprice to market.
- Fixed rate loans that matured within one year are assumed to be equal to their carrying amounts.
- For all other loans, fair value is determined by discounting the expected future cash flows of the loans at market rates for loans with similar terms and credit risks.

The fair values of deposits payable on demand, deposits payable after notice and fixed date deposits payable on a fixed date that matured within one year are assumed to be equal to their carrying values. The estimated fair values of fixed rate deposits payable on a fixed date over one year are determined by discounting the contractual cash flow using market interest rates currently offered for deposits with similar terms and risks.

The fair values disclosed do not reflect the values of assets and liabilities that are not considered financial instruments, such as land, buildings and equipment.

19 Capital management

The Branch's objective, with respect to regulatory capital management, is to maintain a level of capital in compliance with all regulatory requirements.

Regulatory capital requirements are regularly reviewed by management to ensure that the Branch's actual level of capital meets or exceeds these requirements.

Pursuant to subsection 534(3) of the Bank Act, every FBB must deposit unencumbered assets with an approved financial institution in Canada before the Superintendent will issue an Order to Commence and Carry on Business. This deposit is called a foreign bank branch deposit (FBBD), and subsequent to the Order to Commence and Carry on Business, the FBB must maintain the required FBBD at all times, regardless of reporting frequency. The initial FBBD for all full-service branches is set at \$5 million and must be maintained at the greater of \$5 million or 5% of Canadian liabilities, as required by subparagraph 582(1) of the Bank Act. There were no breaches in the Branch's FBBD requirement in 2021 or 2020.

As at December 31, 2021 and December 31, 2020, the Branch meets these requirements of the Superintendent and has deposited \$30 million (2020 – \$30 million) with a Canadian financial institution.

20 Contingencies

The branch is involved in legal proceedings from time to time in the normal course of business concerning matters arising in connection with the conduct of its respective business activities. The following is a description of the Branch's significant legal proceedings.

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Improvident sale of mortgage collateral

The Plaintiffs allege that the Branch entered an improvident sale of two properties on which the Branch held a first mortgage. As a result of the mortgage default, the Branch took possession of the properties and ultimately sold them for a price that the Plaintiffs claimed to be below market value.

This matter was originally scheduled for a three-week trial period beginning March 23, 2020 but was rescheduled to begin on May 25, 2021 due to the closure of courts amid the COVID-19 pandemic. A trial management conference is expected to be held in the spring of 2022 to organize the timetable for the formal trial.

Management believes the Branch has adequate defences to the claims and will defend its position vigorously.

As at December 31, 2021, the potential exposure with respect to this matter is \$6,500,000 (2020 – \$6,500,000). The Branch has recorded no provision as at December 31, 2021 (2020 – \$nil).