Consolidated Financial Statements

Fairstone Bank of Canada

December 31, 2025

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of **Fairstone Bank of Canada**,

Opinion

We have audited the consolidated financial statements of Fairstone Bank of Canada (the "Bank"), which comprise the consolidated balance sheets as at December 31, 2025, and the consolidated statements of income, consolidated statements of changes in equity, consolidated statements of comprehensive income, and consolidated statements of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2025, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the 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 consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the 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 responsibilities for the audit of the consolidated financial statements

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

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

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

"Ernest and Young LLP"

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 26, 2026

Consolidated Balance Sheets

thousands of Canadian dollars	As at December 31 2025	December 31 2024
ASSETS		
Cash and Cash Equivalents	**$ 871,949**	$ 292,408
Securities (note 5)	**549,803**	-
Loans (note 6)		
Residential mortgages	**20,061,553**	440,085
Commercial mortgages	**2,627,351**	-
Installment loans	**4,152,590**	3,929,884
Credit cards and retail finance	**2,915,610**	2,778,829
	29,757,104	7,148,798
Allowance for Credit Losses (note 6(D))	**(653,086)**	(513,083)
	29,104,018	6,635,715
Other		
Restricted assets (note 8)	**192,291**	-
Derivative assets (notes 20, 21)	**58,995**	2,181
Deferred tax assets (note 18)	**40,859**	33,067
Other assets (note 9)	**671,305**	240,658
Intangible assets (note 11)	**191,008**	195,615
Goodwill (note 11)	**612,260**	612,260
	1,766,718	1,083,781
	$ 32,292,488	$ 8,011,904
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities		
Deposits (note 12)	**$ 23,858,955**	$ 4,254,421
Securitization Liabilities (note 7)	**4,170,165**	1,556,441
Other		
Credit Facilities (note 13)	**200,000**	-
Derivative liabilities (notes 20, 21)	**25,646**	1,753
Deferred tax liabilities (note 18)	**34,244**	29,348
Other liabilities (note 14)	**924,455**	411,451
	1,184,345	442,552
	29,213,465	6,253,414
Shareholder's Equity		
Capital stock (note 16)	**2,930,442**	1,588,150
Contributed surplus	**43,431**	42,480
Retained earnings	**99,325**	124,168
Accumulated other comprehensive income	**5,825**	3,692
	3,079,023	1,758,490
	$ 32,292,488	$ 8,011,904

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

On behalf of the Board:

"Scott Wood"

SCOTT WOOD
Director

"Stephen Smith"

STEPHEN SMITH
Director

Consolidated Statements of Income

thousands of Canadian dollars	For the years ended December 31 2025	December 31 2024
Interest Income		
Loans (note 6(E))	**$ 2,992,004**	$ 1,468,623
Securities and other	**41,943**	13,522
	3,033,947	1,482,145
Interest Expense		
Deposits	**959,282**	187,665
Securitization liabilities (note 7)	**162,374**	74,171
Other	**65,402**	43,808
	1,187,058	305,644
Net Interest Income	**1,846,889**	1,176,501
Non-Interest Income		
Mortgage lending	**45,123**	3,003
Installment lending	**90,220**	89,388
Credit cards and retail finance lending	**176,742**	168,063
Net realized and unrealized gains on securities and loans	**3,364**	-
Net realized and unrealized gains (losses) on derivatives (note 20)	**2,230**	(3)
Other income	**65,105**	45,106
	382,784	305,557
Total Revenue	**2,229,673**	1,482,058
Provision for Credit Losses (note 6(D))	**608,076**	552,995
Non-Interest Expenses		
Compensation and employee benefits (note 17)	**281,513**	189,741
Acquisition, business development and loyalty	**148,194**	134,496
Processing and servicing costs	**155,907**	115,609
Technology and equipment	**138,001**	61,989
Premises	**39,631**	26,537
Amortization of intangible assets	**22,125**	22,125
Professional fees	**20,292**	10,182
Other operating expenses	**63,453**	36,768
	869,116	597,447
Income Before Income Taxes	**752,481**	331,616
Income taxes (note 18)	**186,324**	78,380
NET INCOME	**$ 566,157**	$ 253,236

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

Consolidated Statements of Comprehensive Income

thousands of Canadian dollars	For the years ended December 31 2025	December 31 2024
NET INCOME	**$ 566,157**	$ 253,236
OTHER COMPREHENSIVE INCOME (LOSS)		
ITEMS THAT WILL BE SUBSEQUENTLY RECLASSIFIED TO NET INCOME		
Debt Instruments at FVOCI[1]		
Net change in unrealized gains or (losses)	**1,134**	-
Net gains or losses reclassified to net income	**-**	-
	1,134	-
Income tax recovery (expense)	**(316)**	-
	818	-
Cash Flow Hedges (note 20)		
Net change in unrealized gains or (losses)	**(899)**	(2,081)
Net gains reclassified to net income	**(5,804)**	(14,583)
	(6,703)	(16,664)
Income tax recovery (expense)	**1,851**	4,435
	(4,852)	(12,229)
Total other comprehensive income (loss)	**(4,034)**	(12,229)
COMPREHENSIVE INCOME	**$ 562,123**	$ 241,007

[1] FVOCI indicates fair value through other comprehensive income. Refer to Note 2 for further information.

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

Consolidated Statements of Changes in Shareholder's Equity

thousands of Canadian dollars	Capital Stock	Contributed Surplus	Retained Earnings	Net Unrealized Gains (Losses), After Tax, Debt Instruments at FVOCI	Net Unrealized Gains (Losses), After Tax, Cash Flow Hedges	Total Accumulated Other Income (Loss)	Total Shareholder's Equity
Balance at December 31, 2024	**$ 1,588,150**	**$ 42,480**	**$ 124,168**	**$ -**	**$ 3,692**	**$ 3,692**	**$ 1,758,490**
Business combination	**1,342,292**	**951**	**-**	**(1,779)**	**7,946**	**6,167**	**1,349,410**
Comprehensive income	**-**	**-**	**566,157**	**818**	**(4,852)**	**(4,034)**	**562,123**
Dividend distributions	**-**	**-**	**(591,000)**	**-**	**-**	**-**	**(591,000)**
Balance at December 31, 2025	**$ 2,930,442**	**$ 43,431**	**$ 99,325**	**$ (961)**	**$ 6,786**	**$ 5,825**	**$ 3,079,023**
Balance at December 31, 2023	$ 1,582,964	$ 36,548	$ 102,763	$ -	$ 15,921	$ 15,921	$ 1,738,196
Comprehensive income	-	-	253,236	-	(12,229)	(12,229)	241,007
Issuance of shares	5,186	-	-	-	-	-	5,186
Dividend distributions	-	-	(231,831)	-	-	-	(231,831)
Stock options plan expense	-	5,932	-	-	-	-	5,932
Balance at December 31, 2024	$ 1,588,150	$ 42,480	$ 124,168	$ -	$ 3,692	$ 3,692	$ 1,758,490

[1] Business combination represents the amounts recognized upon the Bank's acquisition of HTC on January 1, 2025, refer to Note 4 for further information.

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

Consolidated Statements of Cash Flows

thousands of Canadian dollars	For the years ended December 31 2025	December 31 2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	**$ 566,157**	$ 253,236
Adjustments to determine cash flows relating to operating activities:		
Amortization of net discount on securities	**(570)**	-
Provision for credit losses, excluding cash recoveries	**726,269**	634,070
Amortization of capital and intangible assets	**78,989**	52,261
Amortization of purchase price adjustments related to loans and funding liabilities	**(414)**	(4,005)
Deferred income taxes recovery	**(4,225)**	869
Amortization and write-off of costs related to funding liabilities	**1,812**	1,647
Stock option plan expense	**-**	5,932
Changes in operating assets and liabilities		
Change in loans, net	**(2,020,352)**	(1,277,926)
Broker deposits issued, net	**2,330,999**	672,085
Funds repaid for securitization liabilities, net	**(1,141,414)**	(125,855)
Change in restricted assets	**7,832**	-
Change in derivative assets and liabilities, net	**(38,919)**	-
Change in accrued interest receivable	**(17,944)**	(13,200)
Change in accrued interest payable	**4,065**	53,306
Change in current taxes	**25,135**	(8,289)
Change in other	**19,031**	(5,825)
Cash flows provided by operating activities	**536,451**	238,306
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of share issuance	**-**	5,186
Drawdown from credit facilities	**200,000**	-
Payment for funding issuance cost	**(863)**	(2,126)
Payment for lease liabilities	**(15,823)**	(10,861)
Dividend distributions	**(591,000)**	(231,831)
Cash flows used in financing activities	**(407,686)**	(239,632)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash acquired in business combination	**667,266**	-
Securities purchased under reverse repurchase agreements	**(199,614)**	-
Purchases of property and equipment	**(5,497)**	(3,737)
Capitalized intangible development costs and purchases of intangible assets	**(11,379)**	(6,732)
Cash flows provided by (used in) investing activities	**450,776**	(10,469)
Net (decrease) increase in cash and cash equivalents during the year	**579,541**	(11,795)
Cash and cash equivalents at beginning of the year [1]	**292,408**	304,203
Cash and Cash Equivalents at End of the Year	**$ 871,949**	$ 292,408
Supplementary Disclosure of Cash Flow Information		
Interest received	**$ 3,015,262**	$ 1,465,587
Interest paid	**1,182,579**	256,549
Income taxes paid	**172,336**	76,215

[1] Includes restricted cash of $17.8 million as at December 31, 2025 ($33.6 million as at December 31, 2024) related to securitizations that the Bank has access to.

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

1. CORPORATE INFORMATION

Fairstone Bank of Canada (the "Bank") is a wholly owned subsidiary of Fairstone Group Inc. (the "Parent Company" or "FGI"). The Bank is domiciled in Canada and was incorporated under the Bank Act (Canada) on July 24, 2009. The Bank's registered office is 145 King Street West, Suite 2300, Toronto, Ontario, M5H 1J8.

The Bank received orders to commence and carry on business on June 1, 2010 and launched a Rewards MasterCard in June 2010. In September 2019, the Bank launched a broker originated guaranteed investment certificate ("GIC") program. These GICs are eligible for deposit insurance from Canadian Deposit Insurance Corporation. The Bank, along with its wholly-owned subsidiary Fairstone Financial Inc., is a provider of installment lending, cards and retail lending and mortgage lending.

On January 1, 2025, the Parent Company acquired all of the outstanding shares of Home Capital Group Inc. (HCG). HCG operated through its federally regulated wholly-owned subsidiary, Home Trust Company (HTC). Following the acquisition of HCG, HCG was wound up and the shares of HTC were transferred to the Bank. Smith Financial Corporation (SFC) became the controlling shareholder and ultimate parent of the Bank after the acquisition of HCG.

HTC offers residential and non-residential mortgage lending, securitization of residential mortgage products, consumer lending and credit card services. Home Bank (HB), a wholly-owned subsidiary of HTC, is a federally regulated retail bank offering mortgage lending. HTC and HB also offer deposits via brokers and financial planners, and through a direct-to-consumer brand, Oaken Financial.

These consolidated financial statements for the year ended December 31, 2025 were authorized for issuance by the Board of Directors (the Board) on March 26, 2026.

2. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION

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

Basis of presentation and measurement

These consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for certain financial instruments which are recorded at fair value to the extent required or permitted under accounting standards as set out in the relevant accounting policies.

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

Certain comparative figures have been reclassified to conform with the presentation of the financial statements for the current year. These reclassifications had no material impact on the Bank's consolidated financial position or performance.

The accounting policies were consistently applied to all periods presented unless otherwise noted. The material accounting policies used in the preparation of these financial statements are summarized below.

Use of Judgement and Estimates

Management has exercised judgement in the process of applying the Bank's accounting policies. Some of the Bank's accounting policies require subjective, complex judgements and estimates relating to matters that are inherently uncertain. The preparation of these consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the consolidated balance sheet dates and the reported amounts of revenue and expenses during the reporting periods.

Recent developments in North American trade policy, including the imposition, adjustment, and legal review of various tariff measures between the United States and Canada, have introduced ongoing uncertainty in the bilateral trade environment. These evolving tariff actions and related policy shifts have the potential to affect key sectors of the Canadian economy, such as manufacturing, automotive, and agriculture. In addition, the recent escalation of conflict in the Middle East has contributed to broader global economic uncertainty, particularly in relation to energy markets, supply chain stability, and geopolitical risk. Management notes that these combined sources of uncertainty may contribute to heightened market volatility, inflationary pressures, and potential impacts on employment levels and property values. Over the medium to long term, such conditions could influence customers' financial capacity to meet loan obligations, which may affect the assumptions and estimates used by management in the preparation of these financial statements.

Global economic uncertainty remains elevated due to the economic impacts of decreasing but still elevated interest rates, lower house prices and geopolitical risks. These global economic factors continue to cast uncertainty on assumptions pertaining to the Canadian economy and the Bank's business. Accordingly, there is a higher level of uncertainty with respect to management's judgements and estimates.

Derecognition of Financial Assets

Management has applied judgement in the application of its accounting policy with respect to derecognition of the loans and other assets used in current securitization programs. Certain securitized loans are recognized only to the extent of the Bank's continuing involvement, based on management's judgement that it cannot be determined whether substantially all the risks and rewards of

ownership have been transferred while control has been retained as defined by IFRS 9 *Financial Instruments* (IFRS 9). The remaining loans and other assets that have been securitized are not derecognized, based on management's judgement that the Bank has not transferred substantially all of the risks and rewards of ownership of the loans and other assets.

Impairment of Financial Assets

Under IFRS 9, the expected credit loss (ECL) model requires management to make judgements and estimates in a number of areas. Management must exercise significant judgement in determining whether there has been a significant increase in credit risk (SICR) since initial recognition and in estimating the amount of expected credit losses. The calculation of expected credit losses includes the incorporation of forward-looking information, which requires significant judgement to determine the forward-looking variables that are relevant for each portfolio and the scenarios and probability weights that should be applied. Management also exercises expert credit judgement in determining the amount of ECLs at each reporting date by considering reasonable and supportable information that is not already incorporated in the quantitative modelling process. Changes in these inputs, assumptions, models and judgements directly impact the measurement of ECLs.

As indicated above, global economic uncertainty remains elevated and has resulted in a higher level of uncertainty with respect to management's judgements and estimates which include the inputs, assumptions, models and judgements that directly impact the measurement of ECLs. The forward-looking macroeconomic inputs for each of the scenarios used in the Bank's ECL continue to evolve. Consequently, management has applied considerable judgement in assessing the appropriate probability weights to assign to each scenario. Refer to Note 6 for information on the inputs and assumptions used in the measurement of ECL.

Impairment of Goodwill and Intangible Assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The Bank's indefinite-lived intangible assets and goodwill are tested for impairment at least annually regardless of whether there is any indication of impairment.

Intangible assets are tested at the cash-generating unit (CGU) level when there are signs of impairment. Goodwill is allocated to CGUs or group of CGUs, which can't be larger than the operating segments. It is then tested at the lowest level at which it is managed, which can't be greater than operating segments. The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs to sell. 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in income. Impairment losses relating to goodwill cannot be reversed in future periods.

Other Judgements and Estimates

Other key areas where management has applied judgement and made estimates include fair values, income taxes, useful lives of property and equipment, useful lives of intangible assets, and provisions and contingent liabilities. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Bank and all of its subsidiaries, after the elimination of intercompany transactions and balances.

The Bank consolidates those entities, including structured entities, which the Bank controls. The Bank has control when it has power over the entity, has exposure or rights to variable returns from its involvement and has the ability to use its power over the entity to affect returns. When the Bank loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary and any related components of equity with the resulting gain or loss recognized in the consolidated statement of income as non-interest income.

The structured entities included in the consolidated financial statements are those created in connection with the Bank's securitization programs as described in Note 7 or its tax loss consolidation strategy. Details of the Bank's significant subsidiaries are provided in Note 1.

Classification and Measurement of Financial Instruments

Under IFRS 9, all financial assets are classified at initial recognition based on the Bank's business model under which the financial assets are managed and the nature and characteristics of its contractual cash flows. These factors determine whether financial assets are measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). Refer to Note 21 for the categorization and fair value of financial assets and liabilities under IFRS 9.

The IFRS 9 classification and measurement model requires all debt instrument financial assets that do not meet the solely payments of principal and interest (SPPI) test, including those that contain embedded derivatives, to be classified at initial recognition as FVTPL. For debt instrument financial assets that meet the SPPI test, classification at initial recognition is determined based on the business model under which the instruments are managed. Debt instruments that are managed on a hold to collect basis are classified at amortized cost, debt instruments that are managed on a held for trading or fair value basis are classified as FVTPL, and debt instruments that are managed on a held to collect and for sale basis are classified as FVOCI.

The Bank has assessed the cash flow characteristics for in scope financial assets and defined its significant business models. In determining its business models, the Bank considers a variety of factors at a portfolio level including management intent and strategic objectives, measurement and reporting of performance, frequency and volume of sales activity, and risk management methodology. The Bank has determined the following business models:

- Held to collect: the objective is to collect contractual cash flows; sales are incidental to the objective of the model.
- Held to collect and for sale: the objective is to both collect contractual cash flows and sell the financial asset, and there is an expectation of higher frequency and volume of sales occurring than held to collect.
- Held for sale and other: the objective is neither of the first two business models; the collection of contractual cash flows is incidental.

Debt Instrument Financial Assets Measured at Amortized Cost

Debt instrument financial assets are managed on a held to collect basis, where their contractual cash flows meet the SPPI test and are measured at amortized cost. These financial assets are initially recognized at fair value plus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate method, net of an allowance for expected credit loss. Debt instrument financial assets measured at amortized cost include most loans, including residential and commercial mortgages, installment loans, credit cards and retail finance loans. Mortgages that are securitized but do not receive off-balance sheet treatment are also measured at amortized cost.

Debt Instrument Financial Assets Measured at FVOCI

Debt instrument financial assets measured at FVOCI are non-derivative financial assets with contractual cash flows that meet the SPPI test and are managed on a held to collect and for sale basis. FVOCI debt instruments are measured initially at fair value plus direct and incremental transaction costs. Subsequent to initial recognition, cumulative gains or losses from changes in fair value are recognized in accumulated other comprehensive income (AOCI) and changes in expected credit loss allowances are recognized in the consolidated statement of income. Upon derecognition of the debt instrument, cumulative gains or losses are transferred from AOCI to the consolidated statement of income. Debt instrument financial assets measured at FVOCI include most debt securities and the Bank's retained interest held on mortgages that are securitized and sold. Government of Canada bonds and equivalents that are investment-grade are included under debt securities and no credit losses are expected.

Financial Instruments Measured at FVTPL (Trading and Non-trading)

Trading financial instruments are measured at FVTPL as they are held for trading purposes. Non-trading financial assets are also measured at FVTPL if their contractual cash flow characteristics do not meet the SPPI test or if they are managed on a fair value basis. Transaction costs relating to financial instruments mandatorily measured or designated at FVTPL are expensed as incurred. Trading and non-trading financial assets are remeasured at each reporting date. Gains and losses on disposition and the associated unrealized gains and losses as a result of remeasurement are recognized in the consolidated statement of income as non-interest income. Interest income and expenses recognized on trading and non-trading financial instruments are recognized in net interest income. Financial instruments measured at FVTPL include cash and cash equivalents, certain debt securities and derivative instruments held.

Cash and Cash Equivalents

Cash and cash equivalents comprise balances with less than 90 days to maturity, including cash and deposits with regulated financial institutions, treasury bills and other eligible deposits. Cash and deposits are carried at fair value and classified as financial instruments measured at FVTPL, as indicated above. Interest income is recognized using the effective interest rate method and, to the extent not received at period-end, is recorded as a receivable in other assets on the consolidated balance sheet.

Loans

As indicated above, most loans are classified as debt instrument financial assets measured at amortized cost. Loans are non-derivative financial assets with fixed or determinable payments that the Bank does not intend to sell immediately or in the near term and that are not quoted in an active market. Loans are initially recognized at fair value and subsequently measured at amortized cost, net of the allowance for credit losses and any unearned income.

Interest income is recognized using the effective interest rate method and is allocated over the expected term of the loan by applying the effective interest rate to the carrying amount of the loan. The effective interest rate is the rate that exactly discounts estimated future cash receipts over the expected life of the loan. Origination revenues and costs are applied to the carrying amount of the loan. Interest income is accrued as earned with the passage of time (see below for the impact of impairment on the accrual of interest).

Financial Liabilities

Deposits, securitization, and other liabilities are measured at amortized cost, and derivative liabilities are measured at FVTPL.

Impairment of Financial Instruments – Expected Credit Loss Model

IFRS 9 requires the use of a forward-looking three-stage Expected Credit Loss (ECL) model that requires the recognition of an unbiased and probability-weighted impairment amount reflecting a range of possible outcomes. The ECL model applies to all financial assets that are debt instruments classified as amortized cost or FVOCI, and for all loan commitments and financial guarantees not measured at FVTPL. Significant judgements are made in order to incorporate forward-looking information into the estimation of ECL allowances.

The ECL model consists of the following three stages:

- Stage 1 includes performing financial assets and is measured using a 12-month ECL, with interest income being recognized on the gross carrying value of the asset.
- Stage 2 includes financial assets that have experienced a SICR since initial recognition and is measured using a lifetime ECL, with interest income being recognized on the gross carrying value of the asset.
- Stage 3 includes financial assets that are impaired and is measured using a lifetime ECL, with interest income being recognized on the net carrying value of the asset.

Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument. A 12-month ECL is the portion of lifetime ECL that represents the expected credit losses that result from default events on the financial instrument that are possible within the 12 months following the reporting date. The ECL allowances are calculated through three probability-weighted forward-looking scenarios, including base, upside and downside, that measure the expected cash shortfalls on the financial assets related to default events either (i) over the next 12 months or (ii) over the expected life based on the maximum contractual period over which the Bank is exposed to credit risk. The expected life of certain revolving credit facilities is based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

The three scenarios are updated at each reporting date, and the probability weights and the associated scenarios are determined through a management review process that involves significant judgement and review by the Bank's Allowance Committee consisting of representatives from Finance, Enterprise Risk Management and Operations. The Bank engages an external service provider for forward-looking economic scenarios. The key macroeconomic factors include unemployment rates and housing price index. In addition, the Allowance Committee exercises expert credit judgements in assessing exposures that have experienced a SICR and in determining the amount of ECL allowances required at each reporting date by considering reasonable and supportable information that is not already included in the quantitative models. Expert credit judgements are performed by considering emergence of economic, environmental or political events, as well as expected changes to parameters, models or data that are not currently incorporated. Significant judgements made by the Allowance Committee may impact the amount of ECL allowances recognized.

Measurement of Expected Credit Loss

The Bank calculates ECL allowances through the following key inputs over the remaining expected life of the financial asset and discounted to the reporting date at the respective effective interest rate.

- Probability of Default (PD) measures the estimated likelihood of default over a given time period. PD estimates are updated for each scenario at each reporting date and are based on current and forward-looking information.
- Loss Given Default (LGD) provides the estimate of loss when default occurs at a given time, and is determined based on historical write-off events, recovery payments, borrower-specific attributes and direct costs. The estimate is updated at each reporting date for each scenario based on current and forward-looking information.
- Exposure At Default (EAD) estimates the exposure at the future default date.

Significant Increase in Credit Risk

Upon initial recognition of financial assets, the Bank recognizes a 12-month ECL allowance that represents the portion of lifetime ECL that result from default events that are possible within the next 12 months (Stage 1). If there has been a SICR, the Bank then recognizes a lifetime ECL allowance resulting from possible default events over the expected life of the financial asset (Stage 2). The SICR is determined through changes in the lifetime PD since initial recognition of the financial assets, using a combination of borrower-specific and account-specific attributes, and relevant reasonable and supportable forward-looking information, with a presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. This assessment considers all reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions that impact the Bank's credit risk assessment. Criteria for assessing SICR are defined at a portfolio level and vary based on the risk of default at the origination of the portfolio. If credit quality subsequently improves such that the increase in credit risk since initial recognition is no longer significant, the loss allowances will revert back to be measured based on a 12-month ECL, and the financial asset will transfer from Stage 2 back to Stage 1. Stages 1 and 2 comprise all non-impaired financial assets.

Objective Evidence of Impairment

Financial assets with objective evidence of impairment as a result of loss events that have a negative impact on the estimated future cash flows are considered to be impaired, requiring the recognition of lifetime ECL allowances with interest revenue recognized based on the carrying amount of the asset, net of the allowances, rather than its gross carrying amount (Stage 3). Deterioration in credit quality is considered objective evidence of impairment and includes observable data that comes to the attention of the Bank, such as significant financial difficulty of the borrower. Under IFRS 9, all financial assets on which repayment of principal or payment of interest is contractually 90 days in arrears are presumed to be impaired. Accordingly, the Bank defines default as the earlier of identification of objective evidence of impairment or delinquency of 90 days or more. A financial asset is no longer considered impaired when all past due amounts have been recovered, and the objective evidence of impairment is no longer present.

Purchased Loans

Both purchased performing and purchased or originated credit-impaired (POCI) loans are initially measured at fair value at their acquisition date. As a result of recording these at fair value, no provision for impairment is recognized at the acquisition date.

At the acquisition date, the Bank classifies a loan as performing when the Bank expects timely collection of all amounts in accordance with the original contractual terms of the loan. Purchased performing loans are subsequently accounted for at amortized cost based on their contractual cash flows and any acquisition-related discount or premium, including credit-related discounts, which is considered to be an adjustment to the loan yield and is recognized in interest income using the effective interest rate method over the term of the loan or the expected life of the loan for acquired loans without terms. For purchased performing loans, IFRS 9 requires the recognition of a 12-month ECL immediately after the acquisition date. For purchased credit impaired loans, the ECL was considered as part of the fair value calculation at purchase.

Subsequent to acquisition, the Bank regularly reassesses and updates its cash flow estimates for changes to assumptions relating to default rates, loss severities, and other factors that are reflective of current market conditions. As these impaired loans write off in subsequent reporting periods, the losses incurred are applied against the impairment losses assumed as part of the fair value calculation. Probable decreases in expected cash flows trigger the recognition of additional impairment, which is measured based on the present value of the revised expected cash flows discounted at the asset's effective interest rate as compared to the carrying value of the asset.

Write-Offs

Financial assets are written off, either partially or in full, against the related allowances for credit losses when the Bank believes there are no reasonable expected future recoveries. Any recoveries of amounts previously written off are credited against provision for credit losses in the consolidated statement of income.

Loan Modification

The Bank defines loan modification as changes to the original contractual terms of the financial asset that represents a fundamental change to the contract or changes that may have a significant impact on the contractual cash flow of the asset. The Bank derecognizes the original asset when the modification results in significant change or expiry in the original cash flows; a new asset is recognized based on the new contractual terms. The new asset is initially recognized in Stage 1, and then assessed for SICR on an ongoing basis.

If the Bank determines the modifications do not result in derecognition, the carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows, discounted at the original effective interest rate and a gain or loss is recognized in the consolidated statement of income. The financial asset continues to retain its original staging and SICR assessments.

Obligations Related to Securities Sold under Repurchase Agreements and Securities Purchased Under Reverse Repurchase Agreements

The purchase and sale of securities under repurchase and reverse repurchase agreements are accounted for as collateralized lending and borrowing transactions and are recorded at amortized cost. The related interest income and interest expense are recorded on an accrual basis in the consolidated statement of income.

Derecognition of Financial Assets

If substantially all the risks and rewards of ownership of the financial asset have been retained, the Bank continues to recognize the financial asset and also recognizes a financial liability for the consideration received. If substantially all the risks and rewards of ownership of the financial asset have been transferred, the Bank will derecognize the financial asset and recognize separately as assets or liabilities any rights or obligations created or retained in the transfer. The Bank derecognizes a financial asset when the contractual rights to that asset have expired.

The Bank periodically pools and securitizes loans in a number of securitization programs as described in Note 7. In addition to the Bank's current securitization activity, the Bank previously pooled and securitized insured mortgages under Canada Mortgage and Housing Corporation's (CMHC) National Housing Act (NHA) Mortgage-Backed Securities (MBS) program and sold the securities to investors. Loan securitization activities are a part of the Bank's funding and liquidity strategies.

Most transfers of pools of loans under the Bank's securitization programs do not result in derecognition of the loans from the Bank's consolidated balance sheet, as the risks and rewards of ownership of the loans have not been transferred resulting in the Bank continuing to hold a residual interest. As such, these transactions result in the recognition of securitization liabilities when cash is received, and the loans continue to be accounted for as loans on the consolidated balance sheet.

Securitization liabilities are recorded at amortized cost using the effective interest rate method. Interest expense is allocated over the expected term of the borrowing by applying the effective interest rate to the carrying amount of the liability. The effective interest rate is the rate that exactly discounts estimated future cash outflows over the expected life of the liability. Transaction costs and premiums or discounts are applied to the carrying amount of the liability. Also included in securitization liabilities on the consolidated balance sheets are amounts related to fair value hedge accounting that increase or decrease the carrying amount of the securitization liability. Refer to Note 20 for more information.

In certain cases, the Bank's remaining involvement is quite limited, although it has not transferred substantially all of the risks and rewards in the underlying loans and it has retained control, as defined by IFRS 9. Such mortgages were securitized and sold, and the Bank has a retained interest and servicing responsibilities for the assets sold, with very little exposure to variable cash flows. The Bank accounts for its continuing involvement as retained interests and servicing liabilities on the consolidated balance sheet. Gains or losses on these transactions were recognized in non-interest income on the consolidated statement of income and were dependent in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests, based on their relative fair value at the date of transfer and net of transaction costs. Retained interests are carried

at fair value and classified as debt instrument financial assets measured at FVOCI. The fair value of the retained interests is estimated using discounted cash flows. Retained interests are revalued quarterly to assess for impairment.

Derecognition of Financial Liabilities

The Bank derecognizes a financial liability when the obligation under the liability is discharged, canceled or expires. If an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability at fair value. The difference in the respective carrying amount of the existing liability and the new liability is recognized as a gain or loss in the consolidated statement of income.

Foreclosed Property and Repossessed Assets

In the recovery of impaired loans and advances, the Bank may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the loan customers. Where it is intended to sell the repossessed asset to recover the amount of the impaired assets and the Bank is no longer seeking repayment from the customer, the repossessed assets are included in other assets in the consolidated balance sheet. The Bank does not hold the repossessed assets for its own use and does not recognize depreciation expense on the asset.

Repossessed assets are recorded at the lower of the carrying amount of the related loans and the fair value less costs to sell the repossessed asset at the date of exchange.

Restricted Assets

Restricted assets include cash or cash equivalents and securities that are contractually restricted and are not readily available to the Bank, such as collateral associated with derivative transactions and participation in securitization programs. The accounting treatment for cash and securities is described above. Mortgages assigned as collateral in the Bank's securitization programs or as collateral for the Bank's credit facilities are included in loans on the consolidated balance sheet. Refer to Notes 7, 8 and 13 for more information.

Derivatives Held for Risk Management Purposes

The Bank utilizes derivatives to manage interest rate risk and prepayment risk. Derivatives are recognized on the trade date and carried at fair value. Derivatives are reported as assets if they have a positive fair value and as liabilities if they have a negative fair value.

Hedge Accounting

The Bank elected to apply hedge accounting to derivatives that meet the criteria for hedge accounting in accordance with IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). The Bank utilizes two types of hedge relationships for accounting purposes, fair value hedges and cash flow hedges. If derivative instruments do not meet all of the criteria for hedge accounting, the changes in fair value of such derivatives are recognized in non-interest income.

In order to qualify for hedge accounting, a hedge relationship must be designated and formally documented in accordance with IAS 39. The Bank's documentation, in accordance with the requirements, includes the specific risk management objective and strategy being applied, the specific financial asset or liability or cash flow being hedged and how hedge effectiveness is assessed. To qualify for hedge accounting, there must be a correlation of between 80% and 125% in the changes in fair values or cash flows between the hedged items and hedging instruments.

Hedge effectiveness is assessed at the inception of the hedging relationship and on an ongoing basis. Hedge ineffectiveness occurs when the changes in the fair value of the hedging instruments differ from the fair value changes in the hedged risk in the hedged item. Hedge ineffectiveness is recognized immediately in non-interest income.

Fair Value Hedges

The Bank's fair value hedges generally use interest rate swaps to hedge changes in the fair value of fixed-rate assets or liabilities (the hedged items) attributable to interest rate risk. The change in the fair value of a derivative designated as a fair value hedge and changes in the fair value of the hedged item attributable to the hedged risk, are recognized in net interest income, if the hedging relationship is effective. Fair value changes arising from hedge ineffectiveness are recognized immediately in Net realized and unrealized gains (losses) on derivatives.

If the hedging instrument expires, or is settled or sold, or if the hedge no longer meets the criteria for hedge accounting under IAS 39, the hedge relationship is terminated and the fair value adjustment on the hedged item is then amortized over the remaining term of the hedged item. If the hedged item is settled, the unamortized fair value adjustment is recognized in non-interest income immediately.

Cash Flow Hedges

The Bank's cash flow hedges use bond forward contracts or interest rate swaps to hedge changes in future cash flows attributable to interest rate fluctuations arising on highly probable forecasted issuances of fixed-rate liabilities.

The effective portion of the change in fair value of the derivative instrument is recognized in OCI until the forecasted cash flows being hedged are recognized in income in future accounting periods. When the forecasted cash flows are recognized in income, the AOCI related to those cash flows is reclassified from AOCI into income. Any hedge ineffectiveness is immediately recognized in non-interest income. If the forecasted transaction is no longer expected to occur, the related cumulative gain or loss in AOCI is immediately recognized in non-interest income.

If the hedging instrument expires, or is settled or sold, or if the hedge no longer meets the criteria for hedge accounting under IAS 39, the hedge relationship is terminated. Any cumulative gain or loss recognized at that time remains in AOCI until the forecasted transaction impacts the consolidated statement of income. When the forecasted transaction is no longer expected to occur, the cumulative gain or loss that was recognized in AOCI is immediately recognized in non-interest income.

Non-Zero Initial Fair Value Hedging Instruments

When a hedging relationship is designated on a date that is after the acquisition date of the hedging item, the fair value of the hedging item is likely to differ from zero due to its "off-market terms". The "off–market" nature of the derivative will be a source of ineffectiveness in the hedge relationship, which will be recognized in income over the life of the hedging instrument and considered in the hedge effectiveness assessment.

The Bank, as part of its acquisition of HCG, acquired certain non-zero fair value derivatives which were designated as hedging items in formal hedge accounting relationships.

Property and Equipment

Property and equipment, which comprise office furniture and equipment, computer equipment and purchased software, and leasehold improvements, are recorded at cost and amortized over their estimated useful lives on a straight-line basis. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The ranges of useful lives for each asset type are as follows:

Computer equipment and purchased software	1 to 5 years
Office furniture and equipment	3 to 10 years

Leasehold improvements are amortized on a straight-line basis over the remaining term of the lease.

The Bank assesses, at each reporting period date, whether there is an indication that a capital asset may be impaired. If any indication of impairment exists, the Bank performs an impairment test to determine whether an impairment loss is required to be recognized. The impairment tests are performed in accordance with the steps discussed in the accounting policy note below entitled Impairment of Property and Equipment, Right-of-Use Assets and Intangible Assets.

Intangible Assets

The Bank's intangible assets comprise internally developed software costs and other identifiable non-monetary assets acquired through business combinations. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Bank. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The Bank capitalizes eligible development costs related to software projects. Eligible costs include external direct costs for materials and services, as well as payroll and payroll-related costs for employees directly associated with development. The Bank commences amortization of these costs over the appropriate useful life when development of the asset is substantially complete and the asset becomes available for use in the manner intended by management. Overhead costs, costs incurred during the research phase, costs to train staff to operate the asset and costs incurred after the software was substantially completed and available for use are expensed as incurred.

Intangible assets with indefinite useful lives are not amortized but evaluated for impairment annually, or more frequently whenever there is an indication that the asset may be impaired. The Bank's trade name, "Fairstone", and banking license have been assessed as having indefinite useful lives. Intangible assets with finite useful lives are amortized on a straight-line basis over their useful lives, which range from three to ten years as follows:

Software development costs	3 to 7 years
Dealer relationships	6 to 7 years
Customer and merchant relationships	10 years
Intellectual property	10 years
Non-competitive agreements	Over life of non-competition agreements

The amortization period and the amortization method are reviewed at least at each financial year end. Changes in the expected useful lives are accounted for by changing the amortization period, as appropriate, and are treated as changes in accounting estimates. Amortization expense is included in amortization of intangible assets in the consolidated statement of income.

The Bank assesses, at each reporting period date, whether there is an indication that an intangible asset may be impaired. If any indication of impairment exists, the Bank performs an impairment test to determine whether an impairment loss is required to be recognized. In relation to development costs for software that is not yet available for use, the Bank performs an impairment test on an annual basis as well as when indications of impairment exist. Such annual impairment tests will continue until the software is available for use. The impairment tests are performed in accordance with the steps discussed in the accounting policy note below entitled Impairment of Property and Equipment, Right-of-Use Assets and Intangible Assets.

Business Combinations and Goodwill

Business combinations completed under common control are accounted for under the pooling of interest method, whereby the assets and liabilities of the acquired entity are recognized by the Bank at book value, and no additional goodwill is recognized as a result of

the transaction. Business combinations that are not completed under common control are accounted for using the acquisition method of accounting, which requires the allocation of purchase consideration to identifiable assets acquired and liabilities assumed on a fair value basis at the date of acquisition. When the Bank acquires a business, it assesses financial assets acquired and financial liabilities assumed for appropriate classification and designation in accordance with the contractual term, economic realities and relevant conditions prevailing as at the acquisition date. The Bank accounts for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received.

Goodwill is initially measured as the excess of the price paid for the acquisition of an entity over the fair value of the net identifiable tangible and intangible assets acquired. Goodwill is allocated to the cash-generating units (CGUs) or groups of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Each unit to which the goodwill has been allocated represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes.

An operating segment is a component of an entity whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the operating segment and assess its performance and for which discrete financial information is available. The Company has identified the following operating segments:

- Mortgage Lending
- Installment Lending
- Cards and Retail Lending

These represent the level at which the information is presented to and reviewed by the Company's chief operating decision maker. The Company's goodwill is tested for impairment at the operating segments level.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is evaluated for impairment annually or more often if events or circumstances indicate there may be impairment. Impairment is determined for goodwill by assessing whether the carrying amount of a CGU, including the allocated goodwill, exceeds its recoverable amount. The recoverable amount is determined as the greater of the estimated fair value less the costs of disposal or the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying amount of goodwill and any excess is allocated pro rata to the carrying amount of other assets in the CGU, on the basis of the carrying amount of each asset in the unit. Goodwill impairment is recorded as non-interest expense in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

Leases

The Bank has lease arrangements as lessee comprising commercial leases on premises and property, as well as certain equipment leases. There are no restrictions imposed by lease arrangements.

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

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases for low-value assets. Right-of-use (ROU) assets are recognized at the lease commencement date and are initially measured at cost, which comprise the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date and any initial direct costs incurred. ROU assets are subsequently depreciated on a straight-line basis over the lease term. The Bank assesses, at each reporting period date, whether there is an indication that a ROU asset may be impaired. If any indication of impairment exists, the Bank performs an impairment test to determine whether an impairment loss is required to be recognized. The impairment tests are performed in accordance with the steps discussed in the accounting policy note below entitled Impairment of Property and Equipment, Right-of-Use Assets and Intangible Assets.

Lease liabilities are recognized at the lease commencement date and are initially measured at the present value of the future lease payments to be made over the lease term, discounted using the Bank's incremental borrowing rate. Subsequent to the commencement date, lease liabilities are increased to reflect the accretion of interest and reduced for the lease payments made.

Lease liabilities are remeasured when a modification to the lease contract occurs, which may include adjustments to future lease payments, or changes in assumptions related to the lease term, lease extension options, or lease payments. When a lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset or is recorded in the consolidated statement of income if the carrying amount of the ROU asset has been reduced to zero.

The Bank elected to apply practical expedients allowing the exclusion of short-term leases, which are defined as those that have a lease term of 12 months or less, and the exclusion of leases for low-value items. Lease payments on short-term leases and leases of low-value assets are recognized as an expense as incurred over the lease term.

Impairment of Property and Equipment, Right-of-Use Assets and Intangible Assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. If it is not possible to determine the recoverable amount of the individual asset, the Bank determines the recoverable amount of the CGU to which the asset belongs. The recoverable amount of an asset or a CGU is the higher of its fair value, less costs of disposal, and its value in use, where value in use is the present value of the future cash flows expected to be derived from the asset or the CGU. Where the carrying amount of the asset or the CGU exceeds its recoverable amount, the asset is considered impaired and written down to its

recoverable amount. The Bank evaluates impairment losses for potential reversals when events or changes in circumstances warrant such consideration.

Deposits

Deposits are financial liabilities that are measured at amortized cost using the effective interest rate method. Deposit origination costs are included in deposits on the consolidated balance sheet as incurred and amortized to interest expense over the term of the deposit. Also included in deposits on the consolidated balance sheet are amounts related to fair value hedge accounting that increase or decrease the carrying amount of deposits. Refer to Note 12 for more information.

Provisions

Provisions are 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 measured based on management's best estimate of the consideration required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. If the effect of the time value of money is material, provisions are measured at the present value of the expenditure expected to be required to settle the obligation, using a discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation.

Income Taxes

Income tax comprises current and deferred tax and is recognized in net income, except to the extent that it relates to items recognized directly in shareholder's equity, in which case the related taxes are also recognized directly in shareholder's equity. The Bank follows the asset and liability method of accounting for income taxes, whereby deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates applicable to taxable income in the period in which those temporary differences are expected to be recovered or settled. Deferred tax assets are only recognized for deductible temporary differences, carry forward of unused tax credits and losses to the extent that it is probable that taxable profit will be available and the carry forward of unused tax credits and losses can be utilized. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined using the principal market or most advantageous market that is accessible to the Bank for the asset or liability.

Valuation techniques used to determine fair value maximize the use of relevant observable inputs and minimize the use of unobservable inputs. If the asset or liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure the fair value. Refer to Note 21 for more information on the specific valuation techniques used to determine fair value and the related inputs for each class of assets or liabilities where fair value is disclosed.

Inputs for valuation techniques used to measure fair value are categorized into three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Refer to Note 21 for more information. When inputs used to measure the fair value of an asset or liability are categorized within different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Non-Interest Income

Non-interest income includes: (i) Mortgage lending – which primarily includes loan servicing and administration fees, with the revenue recognized as the associated services are rendered (ii) Installment lending – which primarily includes commission revenue, net, earned on sales of ancillary products to our customers on an agency basis, sold on behalf of third-party vendors and recognized as income, less expected refunds, when sales occur as well as non-sufficient funds fees charged to customers, recognized as income at the time the transaction leading to non-sufficient funds occur. (iii) Credit cards and retail finance lending – which primarily includes interchange income charges that merchants pay the Bank for processing electronic payment transactions fees, service fees, which include foreign exchange conversion fees, convenience cheque fees, non-sufficient funds fees, and card membership fees and creditor insurance income, which consists of administration and service fees as well as profit sharing revenue from the balance protection insurance sold to credit cardholders. Revenues for all these services are recognized when services are rendered. (iv) Other income which primarily includes gain (loss) on sale of repossessed collateral and dividend income arising from the tax loss utilization planning, under which the tax loss carryforwards of the Parent Company are transferred to the Bank.

Employee Benefit Plans

The Bank offers a range of short-term, long-term, post-employment, post-retirement and share-based compensation benefits to its employees.

Short-Term Employee Benefits

Short-term employee benefits include wages, paid leave days, bonus and Canada pension plan contributions. Short-term benefits are expensed as the related service is provided. The Bank recognizes a liability for short-term employee benefits if the Bank has a present legal or constructive obligation to pay an amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined Contribution Plan

The Bank maintains a defined contribution plan with third parties wherein both the Bank and employees contribute based on the formula defined by the plan. The Bank pays its required and matching contributions and therefore has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Post-Retirement Benefit Plan

The Bank maintains a non-pension post-retirement benefit plan that includes life insurance, health and dental care benefits for employees who met the eligibility requirements and a non-pension post-employment benefit plan for employees on long-term disability. These plans are fully funded by contributions from the Bank with no assets specifically set aside for this purpose. The Bank's obligation in respect of the non-pension post-employment benefit plan is calculated by an actuary using the projected benefit method, prorated on service. Under this method, an equal portion of the total estimated future benefit is attributed to each year of service and expensed.

Share-Based Payment Arrangements

The Bank provides share-based compensation to certain employees of its subsidiaries. Expenses relating to the various share-based compensation plans are recognized in the consolidated statement of income as compensation and employee benefits. Refer to Note 17 for more information.

Related Parties

Related parties include SFC and its subsidiaries along with other entities that SFC has a significant interest in. Key management personnel of the Bank are also considered related parties. Key management personnel are defined as those persons having authority and responsibility for planning, directing and/or controlling the activities of an entity, directly or indirectly. Additional information including transactions with the related parties are disclosed in Note 22.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

The following accounting pronouncements issued by IASB were not effective as at December 31, 2025 and therefore have not been applied in preparing these interim consolidated financial statements.

Amendments to the Classification and Measurement of Financial Instruments

In May 2024, the IASB issued amendments to the classification and measurement of Financial Instruments, which amended IFRS 9 and IFRS 7 *Financial Instruments: Disclosures*. The amendments introduce an accounting policy choice to derecognize financial liabilities including those which are settled using electronic payment systems. The amendments also clarify the application of the SPPI test to financial instruments with environmental, social and governance (ESG) linked features. Furthermore, the amendments introduce additional disclosure requirements for equity instruments designated as FVOCI and for financial instruments with cash flows contingent on certain events.

The amendments are effective for annual reporting periods beginning on or after January 1, 2026, with early adoption permitted. The adoption of this amendment has no material impact on the Bank's consolidated financial statements.

IFRS 18 Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* (IFRS 18) which replaces IAS 1 *Presentation of Financial Statements* and aims to give users of financial statements better information about companies' financial performance. The new standard introduces three key sets of guidelines for: improved comparability of the income statement using defined subtotals and categorization of income and expenses; enhanced transparency of management defined performance measures; and enhanced grouping of information in the financial statements.

IFRS 18 will be effective for the Bank on January 1, 2027, with early adoption permitted. The Bank is currently assessing the impact of this new standard.

4. BUSINESS ACQUISITION

On March 22, 2024, Smith Financial Corporation ("SFC") purchased 20% non-voting shares of FGI from Canvas Holdings LP. Subsequently, FGI and Home Capital Group ("HCG"), a wholly owned company of SFC, entered into a definitive agreement to combine their respective businesses. Following regulatory approval in December 2024, on January 1, 2025, SFC's non-voting common shares were converted into voting common shares granting SFC the controlling interest of FGI. Immediately following the conversion, FGI completed the acquisition of 100% interest in HCG, and then the Bank acquired Home Trust Company ("HTC"), HCG's principal operating entity, from FGI. The acquisition of HTC by the Bank was treated as a business combination under common control and was accounted for under the pooling of interest method, whereby the assets and liabilities of HTC were recognized by the Bank at book value and no additional goodwill was recognized as a result of the transaction.

5. SECURITIES

(A) Securities at Fair Value by Type and Remaining Term to Maturity and Rate Reset Date

thousands of Canadian dollars	As at December 31, 2025				
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total Fair Value
Debt securities measured at FVOCI	**$ 149,823**	**$ 199,956**	**$ -**	**$ -**	**$ 349,779**

thousands of Canadian dollars	As at December 31, 2024				
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total Fair Value
Debt securities measured at FVOCI	$ -	$ -	$ -	$ -	$ -

(B) Securities under reverse repurchase agreements by Remaining Term to Maturity

thousands of Canadian dollars	As at December 31, 2025				
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total Carrying Value
Securities purchased under reverse repurchase agreements	**$ 200,024**	**$ -**	**$ -**	**$ -**	**$ 200,024**

thousands of Canadian dollars	As at December 31, 2024				
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total Carrying Value
Securities purchased under reverse repurchase agreements	$ -	$ -	$ -	$ -	$ -

(C) Securities Measured at FVOCI - Net Unrealized Gains and Losses

thousands of Canadian dollars, except %	As at December 31, 2025				
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value	Weighted-Average Yield
Debt securities measured at FVOCI	**$ 349,881**	**$ -**	**$ (102)**	**$ 349,779**	**2.9%**

The unrealized gains or losses included above represent the differences between the cost of a security and its current fair value. There were no debt securities as at December 31, 2024.

Included in debt securities measured at FVOCI are Government of Canada debt securities with a carrying amount of $40.0 million which are held as security for the $70.0 million uncommitted secured credit facility referred to in Note 13. The Bank may at any time and at its discretion replace the Government of Canada debt securities as security for the credit facility with other acceptable forms of security.

Net unrealized gains and losses (excluding impairment losses, which are recognized in the consolidated statements of income) are included in AOCI and presented in the table above. These unrealized gains and losses are not included in net income.

As at December 31, 2025, there were no allowances for credit losses recognized on debt securities measured at FVOCI. All debt securities measured at FVOCI are Government of Canada debt securities and are classified as Stage 1.

Interest income earned on debt securities measured at FVOCI was $9.6 million for the year ended December 31, 2025 and is included in other interest in the consolidated statements of income.

6. LOANS

(A) Loans by Portfolio

thousands of Canadian dollars	As at December 31, 2025		
	Gross Carrying Amount	Allowance for Credit Losses	Net Carrying Amount
Residential mortgages	**$ 20,061,553**	**$ 97,121**	**$ 19,964,432**
Commercial mortgages	**2,627,351**	**41,943**	**2,585,408**
Installment loans	**4,152,590**	**273,192**	**3,879,398**
Credit cards and retail finance	**2,915,610**	**240,830**	**2,674,780**
	$ 29,757,104	**$ 653,086**	**$ 29,104,018**

thousands of Canadian dollars	As at December 31, 2024		
	Gross Carrying Amount	Allowance for Credit Losses	Net Carrying Amount
Residential mortgages	$ 440,085	$ 2,741	$ 437,344
Installment loans	3,929,884	284,895	3,644,989
Credit cards and retail finance	2,778,829	225,447	2,553,382
	$ 7,148,798	$ 513,083	$ 6,635,715

(B) Loans by Geographic Region (Gross of Allowance for Credit Losses)

thousands of Canadian dollars, except %	As at December 31, 2025						
	British Columbia	Alberta	Ontario	Quebec	Atlantic Provinces	Other	Total
Residential mortgages	**$ 1,984,285**	**$ 1,497,456**	**$13,551,869**	**$ 1,322,543**	**$ 1,407,116**	**$ 298,284**	**$20,061,553**
Commercial mortgages	**411,567**	**211,527**	**1,582,977**	**407,924**	**13,356**	**-**	**2,627,351**
Installment loans	**345,205**	**552,776**	**1,401,284**	**902,833**	**613,631**	**336,861**	**4,152,590**
Credit cards and retail finance	**397,597**	**413,378**	**1,243,774**	**472,312**	**178,801**	**209,748**	**2,915,610**
	$ 3,138,654	**$ 2,675,137**	**$17,779,904**	**$ 3,105,612**	**$ 2,212,904**	**$ 844,893**	**$29,757,104**
As a % of portfolio	**10.6%**	**9.0%**	**59.8%**	**10.4%**	**7.4%**	**2.8%**	**100%**

thousands of Canadian dollars, except %	As at December 31, 2024						
	British Columbia	Alberta	Ontario	Quebec	Atlantic Provinces	Other	Total
Residential mortgages	$ 14,518	$ 45,603	$ 181,325	$ 74,293	$ 101,691	$ 22,655	$ 440,085
Installment loans	330,304	532,106	1,299,853	848,026	596,653	322,942	3,929,884
Credit cards and retail finance	362,261	381,296	1,238,392	436,804	165,366	194,710	2,778,829
	$ 707,083	$ 959,005	$ 2,719,570	$ 1,359,123	$ 863,710	$ 540,307	$ 7,148,798
As a % of portfolio	9.9%	13.4%	38.0%	19.0%	12.1%	7.6%	100.0%

(C) Credit Risk Exposure by Internal Risk Rating

The following table presents the gross carrying amounts of loans subject to IFRS 9 impairment requirements based on performance differentiation by product type, internal and external risk scores, and credit utilization thresholds used by the Bank for credit risk management purposes. These internal risk ratings are based on the forward-looking loss indicators. The gross carrying amount of loans represents the maximum exposure to credit risk at the end of the reporting period without taking into account any collateral or other credit enhancements.

The credit risk exposure classification presented in the table below are defined as follows:

Low: Loans that have below average credit risk that is lower than the Bank's risk appetite and risk tolerance levels.

Medium: Loans that have an average probability of default with credit risk which is within the Bank's risk appetite and risk tolerance.

High: Loans that were originated within the Bank's risk appetite but have subsequently experienced an increase in credit risk which is outside of the Bank's typical risk appetite and risk tolerance levels.

Default: Loans that are 90 days or more past due or loans for which there is objective evidence of impairment.

thousands of Canadian dollars	As at December 31, 2025				As at December 31, 2024			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Residential mortgages								
Low	**$ 13,833,545**	**$ 24,831**	**$ -**	**$ 13,858,376**	$ 312,774	$ -	$ -	$ 312,774
Medium	**3,831,803**	**290,233**	**-**	**4,122,036**	75,079	16,655	-	91,734
High	**674,975**	**870,746**	**-**	**1,545,721**	5,973	12,841	-	18,814
Default	**-**	**-**	**535,420**	**535,420**	-	-	16,763	16,763
Gross carrying amount	**18,340,323**	**1,185,810**	**535,420**	**20,061,553**	393,826	29,496	16,763	440,085
Allowance for credit losses	**(10,933)**	**(9,508)**	**(76,680)**	**(97,121)**	(1,497)	(179)	(1,065)	(2,741)
Net carrying amount	**18,329,390**	**1,176,302**	**458,740**	**19,964,432**	392,329	29,317	15,698	437,344
Commercial mortgages								
Low	**1,091,170**	**1,038**	**-**	**1,092,208**	-	-	-	-
Medium	**858,078**	**216,386**	**-**	**1,074,464**	-	-	-	-
High	**14,095**	**11,295**	**-**	**25,390**	-	-	-	-
Default	**-**	**-**	**435,289**	**435,289**	-	-	-	-
Gross carrying amount	**1,963,343**	**228,719**	**435,289**	**2,627,351**	-	-	-	-
Allowance for credit losses	**(6,570)**	**(1,931)**	**(33,442)**	**(41,943)**	-	-	-	-
Net carrying amount	**1,956,773**	**226,788**	**401,847**	**2,585,408**	-	-	-	-
Installment loans								
Low	**2,605,503**	**-**	**-**	**2,605,503**	2,437,943	-	-	2,437,943
Medium	**966,128**	**260,596**	**-**	**1,226,724**	903,640	239,572	-	1,143,212
High	**63,003**	**99,717**	**-**	**162,720**	73,684	119,657	-	193,341
Default	**-**	**-**	**157,643**	**157,643**	-	-	155,388	155,388
Gross carrying amount	**3,634,634**	**360,313**	**157,643**	**4,152,590**	3,415,267	359,229	155,388	3,929,884
Allowance for credit losses	**(171,880)**	**(28,992)**	**(72,320)**	**(273,192)**	(177,608)	(31,558)	(75,729)	(284,895)
Net carrying amount	**3,462,754**	**331,321**	**85,323**	**3,879,398**	3,237,659	327,671	79,659	3,644,989
Credit cards and retail finance								
Low	**1,286,619**	**3,610**	**-**	**1,290,229**	1,250,917	-	-	1,250,917
Medium	**342,665**	**636,238**	**-**	**978,903**	293,162	596,434	-	889,596
High	**61,025**	**512,981**	**-**	**574,006**	50,384	523,264	-	573,648
Default	**-**	**-**	**72,472**	**72,472**	-	-	64,668	64,668
Gross carrying amount	**1,690,309**	**1,152,829**	**72,472**	**2,915,610**	1,594,463	1,119,698	64,668	2,778,829
Allowance for credit losses	**(43,708)**	**(147,920)**	**(49,202)**	**(240,830)**	(39,042)	(142,047)	(44,358)	(225,447)
Net carrying amount	**1,646,601**	**1,004,909**	**23,270**	**2,674,780**	1,555,421	977,651	20,310	2,553,382
Total loans								
Gross carrying amount	**25,628,609**	**2,927,671**	**1,200,824**	**29,757,104**	5,403,556	1,508,423	236,819	7,148,798
Allowance for credit losses	**(233,091)**	**(188,351)**	**(231,644)**	**(653,086)**	(218,147)	(173,784)	(121,152)	(513,083)
Net carrying amount	**$ 25,395,518**	**$ 2,739,320**	**$ 969,180**	**$ 29,104,018**	$ 5,185,409	$ 1,334,639	$ 115,667	$ 6,635,715

(D) Allowance for Credit Losses

The following table provides a continuity of the allowance for credit losses during the year by product and IFRS 9 Stage indicating components of the provision for credit losses as well as write-offs and recoveries.

thousands of Canadian dollars	December 31, 2025				For the years ended December 31, 2024			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Residential mortgages								
Balance at the beginning of the year	**$ 1,497**	**$ 179**	**$ 1,065**	**$ 2,741**	$ 1,403	$ 145	$ 491	$ 2,039
Business combination	**16,561**	**16,142**	**35,245**	**67,948**	-	-	-	-
New assets originated	**16,128**	**-**	**-**	**16,128**	619	-	-	619
Transfer into Stage 1	**12,299**	**(10,152)**	**(2,147)**	**-**	266	(154)	(112)	-
Transfer into Stage 2	**(5,450)**	**11,144**	**(5,694)**	**-**	(166)	188	(22)	-
Transfer into Stage 3	**(4,015)**	**(7,964)**	**11,979**	**-**	(77)	(39)	116	-
Remeasurement	**(8,628)**	**6,427**	**47,891**	**45,690**	(198)	129	2,341	2,272
Change in risk parameters and models	**(12,837)**	**(2,306)**	**51,044**	**35,901**	(31)	(40)	(152)	(223)
Assets derecognized or repaid	**(4,622)**	**(3,962)**	**(35,325)**	**(43,909)**	(319)	(50)	(295)	(664)
Provision for credit losses	**(7,125)**	**(6,813)**	**67,748**	**53,810**	94	34	1,876	2,004
Write-offs	**-**	**-**	**(28,596)**	**(28,596)**	-	-	(2,288)	(2,288)
Recoveries	**-**	**-**	**1,218**	**1,218**	-	-	986	986
Balance at the end of the year	**10,933**	**9,508**	**76,680**	**97,121**	1,497	179	1,065	2,741
Commercial mortgages								
Business combination	**6,258**	**2,123**	**16,748**	**25,129**	-	-	-	-
New assets originated	**7,047**	**-**	**-**	**7,047**	-	-	-	-
Transfer into Stage 1	**2,699**	**(2,039)**	**(660)**	**-**	-	-	-	-
Transfer into Stage 2	**(1,550)**	**1,550**	**-**	**-**	-	-	-	-
Transfer into Stage 3	**(806)**	**(1,255)**	**2,061**	**-**	-	-	-	-
Remeasurement	**(7,432)**	**(1,771)**	**18,843**	**9,640**	-	-	-	-
Change in risk parameters and models	**2,888**	**3,606**	**13,077**	**19,571**	-	-	-	-
Assets drawn, derecognized or repaid	**(1,267)**	**(283)**	**(10,354)**	**(11,904)**	-	-	-	-
Provision for credit losses	**1,579**	**(192)**	**22,967**	**24,354**	-	-	-	-
Write-offs	**-**	**-**	**(6,325)**	**(6,325)**	-	-	-	-
Recoveries	**-**	**-**	**52**	**52**	-	-	-	-
Balance at the end of the year	**7,837**	**1,931**	**33,442**	**43,210**	-	-	-	-
Installment loans								
Balance at the beginning of the year	**177,608**	**31,558**	**75,729**	**284,895**	165,486	29,555	61,479	256,520
New assets originated	**116,202**	**-**	**-**	**116,202**	126,635	-	-	126,635
Transfer into Stage 1	**34,761**	**(29,671)**	**(5,090)**	**-**	30,661	(27,864)	(2,797)	-
Transfer into Stage 2	**(47,940)**	**52,598**	**(4,658)**	**-**	(50,905)	53,881	(2,976)	-
Transfer into Stage 3	**(23,223)**	**(27,183)**	**50,406**	**-**	(22,757)	(32,132)	54,889	-
Remeasurement	**(5,921)**	**11,155**	**288,711**	**293,945**	(11,745)	17,841	296,820	302,916
Change in risk parameters and models	**(24,231)**	**(4,723)**	**(1,881)**	**(30,835)**	(10,485)	(5,387)	(4,927)	(20,799)
Assets derecognized or repaid	**(55,376)**	**(4,742)**	**(2,984)**	**(63,102)**	(49,282)	(4,336)	(2,823)	(56,441)
Provision for credit losses	**(5,728)**	**(2,566)**	**324,504**	**316,210**	12,122	2,003	338,186	352,311
Write-offs	**-**	**-**	**(404,708)**	**(404,708)**	-	-	(371,819)	(371,819)
Recoveries	**-**	**-**	**76,795**	**76,795**	-	-	47,883	47,883
Balance at the end of the year	**171,880**	**28,992**	**72,320**	**273,192**	177,608	31,558	75,729	284,895
Credit cards and retail finance								
Balance at the beginning of the year	**49,274**	**158,794**	**44,358**	**252,426**	43,381	157,775	34,448	235,604
Business combination	**263**	**3,060**	**3,072**	**6,395**	-	-	-	-
New assets originated	**22,279**	**-**	**-**	**22,279**	20,916	-	-	20,916
Transfer into Stage 1	**85,469**	**(81,538)**	**(3,931)**	**-**	67,885	(65,457)	(2,428)	-
Transfer into Stage 2	**(29,297)**	**42,458**	**(13,161)**	**-**	(28,623)	39,799	(11,176)	-
Transfer into Stage 3	**(2,478)**	**(94,565)**	**97,043**	**-**	(1,914)	(83,265)	85,179	-
Remeasurement	**(70,914)**	**83,492**	**140,884**	**153,462**	(53,509)	74,734	116,693	137,918
Change in risk parameters and models	**(5,081)**	**31,737**	**(2,558)**	**24,098**	(4,578)	15,293	(468)	10,247
Draws and repayments	**4,947**	**16,490**	**(7,574)**	**13,863**	5,716	19,915	3,968	29,599
Provision for credit losses	**4,925**	**(1,926)**	**210,703**	**213,702**	5,893	1,019	191,768	198,680
Write-offs	**-**	**-**	**(249,113)**	**(249,113)**	-	-	(214,064)	(214,064)
Recoveries	**-**	**-**	**40,182**	**40,182**	-	-	32,206	32,206
Balance at the end of the year	**54,462**	**159,928**	**49,202**	**263,592**	49,274	158,794	44,358	252,426
Total allowance for credit losses	**245,112**	**200,359**	**231,644**	**677,115**	228,379	190,531	121,152	540,062
Total provision for credit losses	**(6,349)**	**(11,497)**	**625,922**	**608,076**	18,109	3,056	531,830	552,995
Total allowance for credit losses comprises:								
Amounts drawn	**$ 233,091**	**$ 188,351**	**$ 231,644**	**$ 653,086**	$ 218,147	$ 173,784	$ 121,152	$ 513,083
Undrawn commitments[1]	**12,021**	**12,008**	**-**	**24,029**	10,232	16,747	-	26,979

[1] ECL related to undrawn commitments is reported in other liabilities on the consolidated balance sheets (Refer to Note 14).

(D) Allowance for Credit Losses (Continued)

The following provides explanations of the lines presented in the table above:

- New assets originated represents the allowance related to newly originated loans during the year, including renewals or refinance of existing customers.
- Business combination reflects the effects of the Bank's acquisition of HTC, which was accounted for as a common-control business combination.
- Transfers between stages represents migration of ECL before any corresponding remeasurement of the allowance.
- Remeasurement represents the remeasurement between 12-month and lifetime ECLs due to stage transfers, as well as the impact on expected credit losses from changes in credit risk during the year on loans that transferred between stages.
- Changes in risk parameters and models represent the change in the allowance related to the impact of macroeconomic factors, risk parameters and changes to models for loans that did not transfer between stages during the year. The change in risk parameters also includes the impact on ECL of the change in probability of default and loss given default that occurs with the passage of time as the loan approaches the end of its contractual term. This impact is more significant for loans with shorter contractual terms.
- Assets derecognized or repaid represents the ECL related to assets derecognized during the year including loans subsequently renewed or refinanced. The amounts drawn for commercial mortgages, credit cards and retail financing also include the increase in expected credit losses (ECL) due to additional draws on unfunded commitments for existing customers.

The allowance for credit losses under IFRS 9 requires the consideration of forward-looking information. Forward-looking information is incorporated in both the determination of whether there has been a SICR since initial recognition of the financial asset and in the measurement of ECL allowances. The Bank has determined that the following forward-looking macroeconomic factors are the key drivers that contribute to credit losses: unemployment rates, House Price Index (annual change) and House Price Index (new house and land). These macroeconomic factors are forecasted at the national level and regional level where appropriate.

The ECL allowances are calculated through three probability-weighted forward-looking scenarios, including base, upside and downside, which are chosen from a number of scenarios provided by an external service provider engaged by the Bank to provide this forward-looking macroeconomic information. The three scenarios are reviewed and updated, as necessary at each reporting date, and the probability weights and the associated scenarios are determined through a management review process that involves significant judgement and review by the Bank's Allowance Committee consisting of representatives from Finance, Enterprise Risk Management and Operations. As at June 30, 2025, the Bank increased the weighting of the downside scenario of its forward-looking scenarios to incorporate the credit implications arising from the prevailing economic conditions and heightened macroeconomic uncertainty, compared to the end of the previous year. As at December 31, 2025 the weightings of forward-looking scenarios were maintained at the same levels as June 30, 2025. The following table provides the values of the forward-looking macroeconomic inputs at the national level over the next 12 months for each of the scenarios.

				As at December 31, 2024		
	December 31, 2025					
	Base	**Upside**	**Downside**	Base	Upside	Downside
Average unemployment rate	**7.00%**	**6.46%**	**8.80%**	6.79%	6.54%	8.51%
New house and land price index (annual change)	**0.53%**	**2.29%**	**(5.97)%**	0.96%	1.54%	(7.01)%
Housing price index (annual change)	**0.84%**	**3.22%**	**(8.93)%**	0.41%	1.80%	(9.86)%

The scenarios presented in the table above incorporate assumptions about continued uncertainties triggered by a persistent rising unemployment rate and lower house prices, as well as economic and policy impacts, including the U.S. tariff impact during this uncertain time, using information and facts available at December 31, 2025. The base scenario assumes Canada's economy is expected to experience stagnant growth as U.S. tariffs weigh heavily on exports and deter business investment. While consumer spending holds up, the labour market remains soft, with modest hiring and subdued wage gains until business confidence improves. Inflation, currently restrained by weak demand and the temporary carbon tax cut, is set to rise again in 2026 as tariffs increase input costs. Housing conditions remain strained due to tighter credit and rising mortgage delinquencies, with meaningful stabilization unlikely until labour markets strengthen and borrowing costs decline further. Relative to the base scenario, the downside scenario assumes a higher peak unemployment rate with a more prolonged recovery, as well as a decline in housing prices. The upside scenario assumes lower unemployment rates and a larger increase in housing prices over the next 12 months.

The forward-looking macroeconomic scenarios described above reflect management's best estimate of the forward-looking information as at December 31, 2025. The uncertainty around future interest rate reductions and lower house prices may lead to changes in future macroeconomic assumptions. While these expected changes in assumptions may result in current forward-looking scenarios that are different from those used by the Bank in its expected credit loss measurement as at December 31, 2025 based on the information available at the end of the period, IFRS 9 does not permit the use of hindsight in measuring expected credit losses.

Accordingly, any changes in forward-looking information subsequent to December 31, 2025 will be reflected in the measurement of expected credit losses in future quarters as appropriate.

The following table compares the probability weighted ECL (determined as the reported allowance for credit losses) against the base case ECL to illustrate the impact of applying probability weights to each of the scenarios in the determination of allowance for credit losses. The differences presented in the following table are isolated to the measurement of ECL without considering the impact of migration between stages.

	As at	
thousands of Canadian dollars	**December 31 2025**	December 31 2024
Probability-weighted ECL (reported allowance for credit losses)	**$ 677,115**	$ 540,062
Base case ECL	**643,661**	515,998
Difference	**$ 33,454**	$ 24,064

The following table presents the allowance for credit losses as at December 31, 2025 and December 31, 2024 for all performing loans (total of Stage 1 and Stage 2 allowance for credit losses) compared to the allowance for credit losses that would result if all performing loans were measured as Stage 1 loans using a 12-month ECL. The difference reflects the estimated impact of Stage 2 loans being measured using a lifetime ECL instead of a 12-month ECL, holding all risk profiles constant.

	As at	
thousands of Canadian dollars	**December 31 2025**	December 31 2024
Reported allowance for credit losses for performing loans (Stage 1 and Stage 2)	**$ 445,471**	$ 418,910
Allowance for credit losses for performing loans if all measured as 12-month ECL	**376,201**	348,000
Remeasurement difference resulting from transfers from Stage 1 to Stage 2	**$ 69,270**	$ 70,910

(E) Interest Income by Portfolio

	For the years ended	
thousands of Canadian dollars	**December 31 2025**	December 31 2024
Residential mortgages	**$ 1,305,452**	$ 63,142
Commercial mortgages	**195,362**	-
Installment loans	**990,503**	933,747
Credit cards and retail finance	**500,687**	471,734
	$ 2,992,004	$ 1,468,623

(F) Loans by Remaining Contractual Term to Maturity (Gross of Allowance for Credit Losses)

					As at	
thousands of Canadian dollars					**December 31 2025**	December 31 2024
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total Book Value	Total Book Value
Residential mortgages	**$ 12,709,194**	**$ 6,397,019**	**$ 676,929**	**$ 278,411**	**$20,061,553**	$ 440,085
Commercial mortgages	**2,074,980**	**539,138**	**458**	**12,775**	**2,627,351**	-
Installment loans	**879,145**	**1,756,710**	**954,506**	**562,229**	**4,152,590**	3,929,884
Credit cards and retail finance[1]	**2,605,350**	**295,394**	**14,826**	**40**	**2,915,610**	2,778,829
	$ 18,268,669	**$ 8,988,261**	**$ 1,646,719**	**$ 853,455**	**$29,757,104**	$ 7,148,798

[1] Credit cards and retail finance products that do not have a contractual maturity and are revolving in nature are classified as having a remaining term to maturity of less than one year.

(G) Revenue from Contracts with Customers

Included within non-interest income in the consolidated statements of income is $250.7 million ($200.6 million for 2024) for the year ended December 31, 2025 of revenue recognized from contracts with customers.

(H) Collateral

The Bank holds collateral on all of its residential and commercial mortgage portfolios in the form of real property. The fair value of collateral held against residential and commercial mortgages is based on appraisals at the time a loan is originated. Appraisals are only updated should circumstances warrant. At December 31, 2025, the total appraised value of the collateral held for impaired mortgages (Stage 3), as determined when the mortgages were originated, was $1.71 billion (2024 - $12.5 million).

7. SECURITIZATION ACTIVITY

(A) Loan Securitizations

In the normal course of business, the Bank securitizes loans that result in the transfer of financial assets. In most circumstances, loan securitizations do not qualify for derecognition as the Bank continues to be exposed to substantially all the risks and rewards of the securitized assets.

CMHC-sponsored NHA MBS

The Bank securitizes insured residential mortgages under the NHA MBS program sponsored by CMHC. As a requirement of the NHA MBS program, the Bank assigns to CMHC all of its interest in CMHC-sponsored securitized mortgage pools. If the Bank fails to make timely payment under an NHA MBS security, CMHC may enforce the assignment of the mortgages included in all the mortgage pools as well as other assets backing the MBS issued.

Certain securitization transactions involving CMHC insured multi-unit residential loans result in the Bank derecognizing the transferred assets in their entirety, and the Bank recognizes its continuing involvement through retained interests and associated servicing liabilities. Off-balance sheet mortgage loans of $4.05 billion at December 31, 2025 ($nil – December 31, 2024) were assigned as collateral.

Residential Mortgage-Backed Securities

The Bank issues private placements of Residential Mortgage-Backed Securities (RMBS) through Classic RMBS Trust, a securitization vehicle managed by HTC. Classic RMBS Trust is a consolidated entity of HTC. The RMBS are backed by a portfolio of near-prime, uninsured, residential mortgages and are comprised of A, B and Z Tranches. The A Tranche is sold to accredited investors, with the B and Z Tranches taken up by HTC and eliminated upon consolidation. The A Tranche has first priority with respect to payments of principal and interest with the B and Z Tranches having rights to payments subordinate to the A Tranche, thereby providing credit enhancements to the A Tranche.

The RMBS issued are not eliminated upon consolidation and are accounted for as secured financing in the consolidated financial statements of the Bank. In addition to the creation of Classic RMBS Trust and as required under the RMBS program structure, HTC created a Limited Partnership (the "LP") at the inception of the RMBS program. The LP is a bankruptcy remote special purpose entity and is also a consolidated entity of HTC. The portfolio of mortgages backing the RMBS were legally transferred from HTC to the LP along with the related security. The holders of RMBS cannot require the transfer of mortgages from the LP back to HTC except in limited circumstances involving a breach of representation and warranty by HTC. The Bank and HTC do not guarantee any debt obligations of the LP, and the holders of RMBS have recourse only to the assets of the LP and not to the general assets of HTC or the Bank.

Bank-sponsored securitization

The Bank also participates in bank-sponsored securitization conduit programs that are backed by a portfolio of near-prime, uninsured, residential mortgages. The Bank has retained substantially all the risks and rewards of ownership of the securitized assets and the notes issued are accounted for as secured financing in the consolidated financial statements of the Bank. The interest rate on any drawn amount is equal to applicable benchmark rates plus spread. Any committed undrawn amounts are subject to a fixed-rate commitment fee. Interest rate exposure is mitigated by entering into floating to fixed interest rate swaps with an eligible swap counterparty, whereby a fixed rate of interest is exchanged for a floating rate of interest.

As at December 31, 2025, the total commitment level of the bank-sponsored securitization conduit programs is $650 million and uncommitted level is $750 million.

Canvas Cards Trust

Canvas Cards Trust is a special purpose entity established to issue notes secured by a pool of Walmart MasterCard credit cards. The Bank has retained substantially all the risks and rewards of ownership of the securitized assets and the notes issued are accounted for as secured financing in the consolidated financial statements of the Bank. Series 2019-1 floating rate Notes were issued in April 2019.

On April 15, 2024, Series 2019-1 Notes were amended and extended with updated terms, including an extension of the commitment period from April 1, 2025 to April 1, 2026, the CDOR was replaced by the CORRA as the primary benchmark rate, an increase of the interest rate on the drawn amount from one-month CDOR plus 130 bps to daily adjusted CORRA (including industry standard adjustment of 29.547 bps) plus 135 bps and a reduction of the undrawn fees from 60 bps to 45 bps for utilization of less than 66.7% and from 37.5bps to 34 bps for higher than 66.7%.

On April 15, 2025, Series 2019-1 Notes were further amended increasing commitment from $742.5 million to $800 million, extending the commitment period from April 1, 2026 to April 1, 2027 and reducing the undrawn fees from 45bps to 40bps for utilization of less than 66.7% and from 34bps to 30 bps for higher than 66.7%.

On June 24, 2025, the Bank issued $250 million of term ABS notes, Series 2025-1, under the Canvas Cards Trust to institutional investors. The fixed rate notes are structured in three tranches A, B, and C, with a scheduled maturity date of June 15, 2028. The issuance carried a weighted average interest rate of 3.795%.

(A) Loan Securitizations (Continued)

Fairstone Financial Issuance Trust I

The Bank also issues notes secured by personal loans through Fairstone Financial Issuance Trust I (FFIT I). FFIT I is a special purpose entity established to issue notes secured by a pool of consumer loans and retail financing plans. To mitigate interest rate exposure, FFIT I Series 2019-2 Notes include a covenant to hedge at least 85% of the exposure by entering into floating to fixed interest rate swap with an eligible swap counterparty, whereby the Trust pays a fixed rate of interest in exchange for a floating rate of interest.

On October 29, 2024, FFIT I 2019-2 facility was amended increasing commitment level to $1.15 billion, extending the commitment maturity date to October 31, 2026 and reducing the undrawn fees from 45bps to 40bps for utilization of less than 66.7% and from 34bps to 30bps for higher than 66.7%.

On November 28, 2025, FFIT I 2019-2 facility was further amended maintaining the existing commitment level of $1.15 billion, extending the commitment maturity date to October 31, 2027 and adjusting undrawn fees to 40bps for utilization of less than 60.0% and 30bps for utilization higher than 60.0%.

EdenPark securitization

EdenPark previously entered into a master purchase and servicing agreement to finance loan originations by pooling finance receivables and selling them directly to the lender. As the securitization of finance receivables does not qualify for derecognition under IFRS, the net proceeds received through securitization of the finance receivables are recorded as securitization liabilities on the consolidated balance sheets. Tranches of securitization liabilities have fixed maturities, fixed interest rates and fixed repayment schedules based on the underlying securitized finance receivables. Securitized liabilities are non-recourse to the Bank.

Key features of the securitization programs as at December 31, 2025 and December 31, 2024:

As at

thousands of Canadian dollars	Securitized Assets		Securitization Liability	
	December 31 2025	December 31 2024	**December 31 2025**	December 31 2024
CMHC-sponsored mortgage-backed security liabilities	**$ 2,064,772**	$ N/A	**$ 2,082,141**	$ N/A
RMBS	**24,587**	N/A	**28,764**	N/A
Bank-sponsored securitization conduit programs	**610,328**	N/A	**537,131**	N/A
FFIT I	**1,553,642**	1,771,664	**682,663**	964,211
Canvas Cards Trust	**1,422,295**	993,469	**825,514**	554,575
EdenPark securitization	**34,571**	58,137	**13,952**	37,655
	$ 5,710,195	$ 2,823,270	**$ 4,170,165**	$ 1,556,441

(B) Securitization Liabilities

The following table presents the securitization liabilities, including liabilities added during the year, which are secured by insured mortgages for CMHC-sponsored securitizations, uninsured mortgages for the RMBS and bank-sponsored securitization conduit programs, personal loans, credit cards and retail financing receivables, and other restricted assets. This table includes only on-balance sheet originations and discharges.

For the years ended

thousands of Canadian dollars	**December 31 2025**	December 31 2024
Balance at the beginning of the year	**$ 1,556,441**	$ 1,682,148
Business combination[1]	**3,757,113**	-
Addition to securitization liabilities as a result of on-balance sheet activity	**1,310,337**	655,000
Net reduction in securitization liabilities due to maturities, amortization and sales	**(2,469,345)**	(784,674)
Other[2]	**15,619**	3,968
Securitization liability	**$ 4,170,165**	$ 1,556,441

[1] Business combination represents the liabilities recognized upon the Bank's acquisition of HTC on January 1, 2025.
[2] Other includes fair value amortizations, premiums, discounts, transaction costs and changes in the mark to market of hedged items.

(B) Securitization Liabilities (Continued)

The following table provides the remaining contractual term to maturity of securitization liabilities.

thousands of Canadian dollars, except %	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	December 31 2025 Total Book Value	As at December 31 2024 Total Book Value
CMHC-sponsored mortgage-backed security liabilities	$ 639,563	$ 1,220,010	$ 222,568	$ -	$ 2,082,141	$ -
Contractual yield	1.4%	2.6%	2.9%	-	2.3%	-
RMBS	-	28,764	-	-	28,764	-
Contractual yield	-	2.4%	-	-	2.4%	-
Bank-sponsored securitization conduit programs	333,004	203,200	927	-	537,131	-
Contractual yield	3.6%	3.6%	3.6%	-	3.6%	-
Canvas Cards Trust	-	825,514	-	-	825,514	554,575
Contractual yield[1]	-	3.9%	-	-	3.9%	5.1%
FFIT I	-	327,964	227,219	127,480	682,663	964,211
Contractual yield[1]	-	4.2%	4.2%	4.2%	4.2%	5.2%
EdenPark securitization	9,350	4,602	-	-	13,952	37,655
Contractual yield	5.2%	4.3%	-	-	4.9%	5.3%
	$ 981,917	$ 2,610,054	$ 450,714	$ 127,480	$ 4,170,165	$ 1,556,441

[1] Weighted average rates.

8. RESTRICTED ASSETS

thousands of Canadian dollars	December 31 2025	As at December 31 2024
Restricted assets		
Restricted cash – securitization programs	$ 149,328	$ -
Restricted cash – derivatives	42,760	-
Restricted cash – other programs	203	-
Total restricted assets	$ 192,291	$ -

Restricted cash – securitization programs represent deposits held as collateral by the sponsors in connection with the Bank's securitization activities. Refer to Note 7(A) for more information.

Restricted cash – derivatives are deposits held by counterparties as collateral for the Bank's swap and bond forward transactions. The terms and conditions for the collateral are governed by International Swaps and Derivatives Association (ISDA) agreements.

Restricted cash – other programs include reserve accounts held in trust for certain portfolios included in credit cards and retail finance loans. These amounts are held as cash collateral against potential credit losses. In addition, other programs include account balances held in trust for the whole loan sales program.

9. OTHER ASSETS

thousands of Canadian dollars	December 31 2025	As at December 31 2024
Accrued interest receivable	$ 261,820	$ 98,774
Securitization receivable and retained interest[1]	99,764	-
Foreclosed assets	10,866	11,089
Property and equipment (Note 10)	82,176	41,972
Insurance-related assets	9,395	9,373
Income taxes recoverable	88,984	23,193
Prepaid Expenses	31,800	12,364
Other items	86,500	43,893
	$ 671,305	$ 240,658

[1] Retained interest is classified as debt instrument financial assets measured at FVOCI. Refer to Note 21 for more information.

10. PROPERTY AND EQUIPMENT

thousands of Canadian dollars	For the year ended December 31, 2025			
	Furniture and Equipment	Leasehold Improvements	Right-of-Use Assets	Total
Cost				
Balance at the beginning of the year	$ 5,062	$ 19,793	$ 46,946	$ 71,801
Business combination[1]	616	3,413	10,310	14,339
Additions	1,035	4,917	41,902	47,854
Terminations and modifications	-	(3)	(9,132)	(9,135)
Balance at the end of the year	6,713	28,120	90,026	124,859
Accumulated depreciation				
Balance at the beginning of the year	1,488	9,898	18,443	29,829
Depreciation	922	4,986	12,717	18,625
Terminations and modifications	-	-	(5,771)	(5,771)
Balance at the end of the year	2,410	14,884	25,389	42,683
Total property and equipment	$ 4,303	$ 13,236	$ 64,637	$ 82,176

thousands of Canadian dollars	For the year ended December 31, 2024			
	Furniture and Equipment	Leasehold Improvements	Right-of-Use Assets	Total
Cost				
Balance at the beginning of the year	$ 4329	$ 16,787	$ 45,922	$ 67,038
Additions	733	4,646	12,757	18,136
Terminations and modifications	-	-	(11,733)	(11,733)
Disposition	-	(1,640)	-	(1,640)
Balance at the end of the year	5,062	19,793	46,946	71,801
Accumulated depreciation				
Balance at the beginning of the year	839	8,360	19,877	29,076
Depreciation	649	3,178	9,853	13,680
Terminations and modifications	-	-	(11,287)	(11,287)
Disposition	-	(1,640)	-	(1,640)
Balance at the end of the year	1,488	9,898	18,443	29,829
Total property and equipment	$ 3,574	$ 9,895	$ 28,503	$ 41,972

[1] Business combination represents the liabilities recognized upon the Bank's acquisition of HTC on January 1, 2025.

During the years ended December 31, 2025 and 2024, the Bank did not identify any events or circumstances that would indicate that the Bank's property or equipment may be impaired.

11. GOODWILL AND INTANGIBLE ASSETS

(A) Goodwill

The Bank tests goodwill for impairment on an annual basis and whenever there are events or changes in circumstances that indicate that the carrying amount may not be recoverable. No goodwill impairment losses were recognized for the years ended December 31, 2025 and 2024.

For the year ended December 31, 2024, the Bank managed its goodwill at the consumer lending operating segment level, which was composed of a group of four CGUs, and the goodwill impairment test was performed at this level. The goodwill was tested comparing the carrying amount of the group of CGUs to its recoverable amount, which was determined based on the fair value less costs of sale (FVLCS). The FVLCS amount was determined based on valuation of the Bank based on the third-party equity transaction (Refer to Note 4 – Business Acquisition).

Following the business combination of HTC the Bank revised its CGUs as well as its reporting structure. As such, for the purposes of impairment testing, goodwill has been allocated to the three operating segments, i) Mortgage Lending ii) Installment Lending iii) Cards and Retail Lending, as it is at this level that management monitors its goodwill and thus, performed its goodwill impairment test.

The recoverable amounts for the three groups of CGUs are based on the FVLCS approach using a five-year cash flow projection from the continuing use of the CGUs' assets and their perpetual terminal exit multiples. No impairment losses were recognized during the year because the recoverable amounts of these CGUs were determined to be higher than their carrying amounts.

The estimation of the recoverable amount is an area of significant judgment. The recoverable amount is estimated using significant assumptions, including forecasted earnings, a discount rate, forecasted regulatory capital requirements, and a terminal exit multiple. Adverse changes to these assumptions either in isolation or combination could result in a reduction in the estimated recoverable amount.

(B) Intangible Assets

The following table presents the net carrying amount of the Bank's intangible assets as at December 31, 2025 and December 31, 2024, along with the changes in net carrying amount for the years then ended.

thousands of Canadian dollars	For the year ended December 31, 2025						
				Finite Useful Life		Indefinite Useful Life	
	Customer Relationships	Merchant and Dealer Relationships	Intellectual Property	Software Development Costs	Other Intangible Assets	Licenses and Trade Name	Total
Cost							
Balance at the beginning of the year	$ 84,000	$ 41,300	$ 80,000	$ 112,580	$ 7,566	$ 15,134	$ 340,580
Business combination[1]	-	-	-	44,522	-	-	44,522
Additions	-	-	-	11,379	-	-	11,379
Impairment charge	-	-	-	(143)	-	-	(143)
Balance at the end of the year	84,000	41,300	80,000	168,337	7,566	15,134	396,337
Accumulated amortization							
Balance at the beginning of the year	33,600	15,805	32,000	58,341	5,219	-	144,965
Amortization expense	8,400	4,845	8,000	38,239	880	-	60,364
Balance at end of the year	42,000	20,650	40,000	96,580	6,099	-	205,329
Carrying amount of intangible assets	$ 42,000	$ 20,650	$ 40,000	$ 71,757	$ 1,467	$ 15,134	$ 191,008

thousands of Canadian dollars	For the year ended December 31, 2024						
				Finite Useful Life		Indefinite Useful Life	
	Customer Relationships	Merchant and Dealer Relationships	Intellectual Property	Software Development Costs	Other Intangible Assets	Licenses and Trade Name	Total
Cost							
Balance at the beginning of the year	$ 84,000	$ 41,300	$ 80,000	$ 105,848	$ 7,566	$ 15,134	$ 333,848
Additions	-	-	-	6,732	-	-	6,732
Balance at the end of the year	84,000	41,300	80,000	112,580	7,566	15,134	340,580
Accumulated amortization							
Balance at the beginning of the year	25,200	10,960	24,000	41,761	4,321	-	106,242
Amortization expense	8,400	4,845	8,000	16,580	898	-	38,723
Balance at the end of the year	33,600	15,805	32,000	58,341	5,219	-	144,965
Carrying amount of intangible assets	$ 50,400	$ 25,495	$ 48,000	$ 54,239	$ 2,347	$ 15,134	$ 195,615

[1] Business combination represents the liabilities recognized upon the Bank's acquisition of HTC on January 1, 2025.

As at December 31, 2025, there was $9.4 million (December 31, 2024 – $9.5 million) in work in progress on internally developed software that was not being amortized.

12. DEPOSITS BY REMAINING CONTRACTUAL TERM TO MATURITY

thousands of Canadian dollars, except %	Payable on Demand	Within 1 Year	1 to 3 Years	3 to 5 Years	December 31 2025 Total	As at December 31 2024 Total
Deposits payable on demand						
High-interest savings accounts	$ 302,379	$ -	$ -	$ -	$ 302,379	$ -
Oaken savings accounts	1,256,351	-	-	-	1,256,351	-
Other deposits payable on demand	79,635	-	-	-	79,635	-
	1,638,365	-	-	-	1,638,365	-
Deposits payable on fixed dates						
Brokered GICs[1]	-	8,168,785	6,005,228	2,891,048	17,065,061	4,254,421
Oaken GICs[1]	-	2,262,986	1,956,025	387,462	4,606,473	-
Institutional deposit notes[2]	-	299,643	249,413	-	549,056	-
	-	10,731,414	8,210,666	3,278,510	22,220,590	4,254,421
Total deposits	$ 1,638,365	$ 10,731,414	$ 8,210,666	$ 3,278,510	$ 23,858,955	$ 4,254,421
Average contractual yield	2.5%	3.8%	4.1%	3.9%	3.8%	4.5%

[1] As at December 31, 2025, included in Brokered and Oaken GICs presented above as payable on fixed dates are $89.9 million of cashable GICs that have reached the required number of days to be payable on demand. In the absence of such demand, the GICs have a remaining contractual term to maturity of within one year.

[2]On September 16, 2025, and October 26, 2025, the Bank issued Institutional deposit notes for $250.0 million and $100.0 million respectively.

13. CREDIT FACILITIES

Committed Secured Warehouse Credit Facility

The Bank has a committed secured warehouse credit facility with a syndicate of Canadian chartered banks. The interest rate on any drawn amount is equal to the one-month adjusted CORRA plus 110 basis points for amounts secured by uninsured mortgages. Any undrawn amounts are subject to a fixed-rate commitment fee. On December 15, 2025, the secured warehouse credit facility commitment level was increased from $300 million to $600 million to include insured mortgage. The facility commitment period was extended from December 30, 2025 to December 30, 2026. The interest rate on any drawn amount is equal to the one-month adjusted CORRA plus 110 basis points for amounts secured by uninsured mortgages, and one-month adjusted CORRA plus 75 basis points for amounts secured by insured mortgages. As at December 31, 2025, the facility was drawn for an amount of $200 million.

Uncommitted Secured Credit Facility

The Bank also has an uncommitted secured credit facility with a Canadian chartered bank in the amount of $70 million, subject to letters of credit issued and outstanding against the facility. As at December 31, 2025, the facility was undrawn.

Interest expense and the commitment fee for credit facilities are included in other interest expense in the consolidated statements of income. Transaction costs on the credit facilities are amortized over the life of the facility and are also included in other interest expense. The Bank was in compliance with all financial and reporting covenants with all of its lenders as at December 31, 2025.

14. OTHER LIABILITIES

thousands of Canadian dollars	December 31 2025	As at December 31 2024
Accrued interest payable	$ 501,395	$ 145,607
Allowance for credit losses on undrawn commitments (Note 6(D))	24,029	26,979
Securitization servicing liability	17,144	-
Payable to merchants	25,599	27,853
Rewards liability	34,550	30,690
Insurance-related liabilities	36,462	37,923
Lease liability (Note 15)	75,670	32,241
Income taxes payable	17,619	951
Accrued expenses and vendor payables	40,899	27,187
Accrued compensation	40,841	31,169
Other items	110,247	50,851
	$ 924,455	$ 411,451

15. LEASES

The Bank's right-of-use assets and lease liability primarily relate to real estate leases for its office space and network branch locations across Canada. Right-of-use assets are included in other assets on the consolidated balance sheets and lease liabilities are included in other liabilities on the consolidated balance sheets. The depreciation of right-of-use assets is classified as premises expense under non-interest expenses in the consolidated statements of income.

The following table presents the changes in the net carrying amount of lease liabilities for the years ended December 31, 2025 and December 31, 2024.

	For the years ended	
thousands of Canadian dollars	**December 31 2025**	December 31 2024
Balance at the beginning of the year	**$ 32,241**	$ 27,909
Business combination[1]	**14,364**	-
Change in liability	**42,601**	13,738
Payments made to lessors	**(15,823)**	(10,859)
Interest expense incurred	**2,287**	1,453
Balance at the end of the year	**$ 75,670**	$ 32,241

[1]Business combination represents the liabilities recognized upon the Bank's acquisition of HTC on January 1, 2025

Refer to Note 19(A) for the remaining contractual maturity of lease liabilities based on contractual undiscounted payments.

16. SHARE CAPITAL AND EQUITY

(A) Share Capital

Common shares

The Bank is authorized to issue an unlimited number of its common shares, without nominal or par value, for unlimited consideration. The changes in common shares issued and outstanding during the quarter are presented in the table below.

	For the years ended			
thousands	**December 31, 2025**		December 31, 2024	
	Number of Shares	**Amount**	Number of Shares	Amount
Outstanding at the beginning of the year	**1,658,384**	**$ 1,588,150**	1,655,569	$ 1,582,964
Issuance of shares for cash	**-**	**-**	2,815	5,186
Issuance of shares for business combination	**1,255,341**	**1,342,292**	-	-
Outstanding at the end of the year	**2,913,725**	**$ 2,930,442**	1,658,384	$ 1,588,150

For the year ended December 31, 2025, the Bank distributed in the form of dividend to the Parent Company in the amount of $591.0 million ($231.8 million for the year ended December 31, 2024).

Preferred shares

The Bank is authorized to issue an unlimited number of preferred shares, without nominal or par value, for unlimited consideration. These shares have preference over common shares. There were no preferred shares outstanding as at December 31, 2025 and December 31, 2024.

(B) Capital Management

The Bank has a Capital Management Policy that governs the quantity and quality of capital held. The objectives of the policy are to ensure that capital levels are adequate and that the Bank meets all regulatory capital requirements, while also providing a sufficient return to the Parent Company. The Risk Committee and the Board review the policy annually and monitor compliance with the policy on a quarterly basis. The Bank is subject to the regulatory capital requirements stipulated by OSFI. These requirements are consistent with international standards (Basel III) set by the Bank for International Settlements. The Bank follows the Basel III Standardized Approach for calculating credit risk and the Simplified Standardized Approach for operational risk. The Bank is also required to meet a minimum Leverage ratio determined by OSFI. In addition, the declaration and payment of dividends by either the Bank to the Parent Company or HB to HTC are subject to restrictions under the Bank Act (Canada) and the declaration and payment of dividends from HTC to the Bank is subject to restrictions under the Trust and Loan Companies Act (Canada).

The regulatory capital position and Leverage ratio of the Bank was as follows:

	As at		
	December 31 2025	December 31 2024	National Regulatory Minimum
Regulated capital to risk-weighted assets			
Common Equity Tier 1 capital (CET1) ratio	**13.57%**	14.02%	7.00%
Tier 1 capital ratio	**13.57%**	14.02%	8.50%
Total regulatory capital ratio	**14.68%**	15.14%	10.50%
Leverage ratio	**6.69%**	10.44%	3.00%

The Bank's CET1, Tier 1, and Total regulatory capital ratios exceed OSFI's regulatory targets, as well as the Bank's internal capital targets. The Leverage ratio also exceeds OSFI's minimum requirements.

17. EMPLOYEE BENEFITS

(A) Stock Option Plan

On February 2, 2021, the Bank established the Stock Option Plan (the "Plan") to grant options to the management and key employees of the Bank. The Plan provides for the granting of both options without market conditions ("Time-Based Options") and options with market conditions ("Performance-Based Options"). These stock options give right to Class E non-voting common shares in capital of the Parent Company. The terms of the stock option grants under the Plan, including the exercise prices and vesting periods, are determined by the Board. The options had an expiry date of 10 years from the grant date or upon termination of the option holder.

On March 27, 2024, in light of the definitive agreement to merge the Bank and HCG (refer to Note 4), the Board decided to settle the outstanding Plan to permit option holders to exercise all or a portion of their options to acquire Class E non-voting common shares of the Parent Company and to surrender the remainder of their options in exchange for their intrinsic value paid in cash.

Due to the early settlement of the Plan which grant option holders the choice to have their options settled in cash, the Bank changed the vesting period of the Plan and accelerated the amortization of stock option expense. Stock-based compensation expense for the year ended December 31, 2024 was $5.9 million.

(B) Deferred Share Unit (DSU) Plan

The Bank previously had a DSU plan to grant DSUs to certain executives of the Bank. DSUs vest upon grant but are only capable of being settled in accordance with the terms of the DSU plan.

The expense related to the DSUs is recorded in the period the award is earned by the executives. As at December 31, 2025, the liability for DSUs held under this plan was $1.7 million (December 31, 2024 - $1.4 million). At the end of each period, the liability and expense are adjusted to reflect changes in the value of the DSUs. As at December 31, 2025, there were 32,169 DSUs (December 31, 2024 – 24,105) outstanding.

(C) Performance Share Unit (PSU) Plan

The Bank previously had a PSU plan to grant PSUs to certain key members of management of the Bank who are employees of HTC. PSUs generally vest after three years on the condition that certain performance criteria are met based on the performance of HTC. The performance factor ranges from 0% to 200%.

As at December 31, 2025, the liability for PSUs held under this plan was $0.8 million (December 31, 2024 - nil). At the end of each period, the liability and expense are adjusted to reflect changes in the value of the PSUs. As at December 31, 2025, there were 2,651 PSUs (December 31, 2024 – nil) outstanding.

(D) Restricted Share Unit (RSU) Plan

The Bank also previously had a RSU plan to grant RSUs to certain employees of the Bank. RSUs vest over three years and the vested amount is settled on the vesting date.

The expense related to the RSUs is recorded over the vesting period. As at December 31, 2025, the liability for RSUs held under this plan was $2.6 million (December 31, 2024 - $2.9 million). As at December 31, 2025, there were 47,798 RSUs (December 31, 2024 – 80,350) outstanding.

(E) Long Term Incentive Plan (LTIP)

On March 27, 2025, the Bank commenced a new LTIP program which grants RSUs to key members of management. New grants related to the programs described above have ceased following the introduction of this new program. The RSUs related to LTIP will vest over three years and the vested amount is settled on the vesting date. The cash value of the RSUs is equivalent to the book value of common shares of the Bank on the vesting date adjusted for cumulative distributions. The expense related to the RSUs is recognized over the vesting period. As at December 31, 2025, there were 3,152,361 RSUs outstanding and the liability for LTIP held under this plan was $2.5 million (December 31, 2024 – nil).

18. INCOME TAXES

(A) Income Tax Expense

	For the years ended	
thousands of Canadian dollars	**December 31 2025**	December 31 2024
Current income tax expense	**$ 187,620**	$ 72,390
Adjustment in respect of prior years	**(1,771)**	(385)
Total current income tax expense	**185,849**	72,005
Deferred income tax expense (recovery)		
Origination and reversal of temporary differences	**(446)**	6,917
Effects of change in tax rates	**(333)**	-
Adjustment in respect of prior years	**1,254**	(542)
Total deferred tax (recovery) expense	**475**	6,375
Income tax expense	**$ 186,324**	$ 78,380

(B) Reconciliation of Income Taxes

The combined federal and provincial income tax rate varies each year depending on changes in the statutory tax rate imposed by the federal and provincial governments. The effective rate of income tax in the consolidated statements of income for the year is different from the combined federal and provincial income tax rate of 26.50% (2024 – 26.50%) due to various permanent differences.

	For the years ended			
thousands of Canadian dollars, except %	**December 31, 2025**		December 31, 2024	
Income before income taxes	**$ 752,481**		$ 331,616	
Income taxes at combined statutory tax rates	**$ 199,407**	**26.50%**	$ 87,876	26.50%
Increase (decrease) in income taxes at statutory rates resulting from				
Non-deductible items	**(17,489)**	**(2.32%)**	2,631	0.79%
Adjustments due to changes in tax rates	**(333)**	**(0.04%)**	(926)	(0.28%)
Federal bank and life insurers tax	**4,739**	**0.63%**	-	-
Other	**-**	**-%**	(11,201)	(3.38%)
	186,324	**24.76%**	78,380	23.64%

(C) Deferred Tax Assets and Liabilities

thousands of Canadian dollars	As at December 31 2025	As at December 31 2024
Deferred tax assets		
Reserves	$ 62,493	$ 50,032
Financing charges	110	495
Loss carryforwards	7,446	-
Lease liabilities	19,900	8,643
Commitment fees net of finders' fees	692	-
Other	-	5,867
	90,641	65,037
Deferred tax liabilities		
Commissions	7,207	-
Securitization transaction costs	6,854	-
Intangible assets	51,486	46,474
Property and equipment	701	973
Right-of-use assets	17,778	7,600
Other	-	6,271
	84,026	61,318
Net deferred tax asset	$ 6,615	$ 3,719

Net deferred tax assets on the consolidated balance sheets were $40.9 million (December 31, 2024 - $33.1 million) and deferred tax liabilities on the consolidated balance sheets were $34.2 million (December 31, 2024 - $29.3 million). The deferred tax asset primarily comprises of allowance for credit losses. The deferred tax asset is presented net of certain deferred tax liabilities, primarily attributed to intangible assets.

Bill C-69 received royal assent on June 20, 2024, which enacted Canada's Pillar Two global minimum tax regime (Global Minimum Tax Act, or "GMTA"), retroactive to January 1, 2024. As at December 31, 2025, the impact of this new tax regime is not material for the Bank. Furthermore, the Bank has applied the exception from recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two tax, as permitted *by IAS 12 – Income Taxes*.

19. COMMITMENTS AND CONTINGENCIES

(A) Lease and Other Contractual Commitments

The Bank has entered into commercial leases and other contracts pertaining to property and equipment. The following table presents a summary of the Bank's contractual obligations as at December 31, 2025 and December 31, 2024.

thousands of Canadian dollars	As at December 31 2025	As at December 31 2024
Within one year	$ 15,251	$ 10,054
After one year but not more than five years	37,344	23,055
After more than five years	43,568	2,128
	$ 96,163	$ 35,237

(B) Credit Commitments

In the normal course of business, the Bank enters into various commitments to meet the credit requirements of its customers. Such commitments, which are not included in the consolidated balance sheets, apply only to undrawn commitments on (i) outstanding amounts for future advances on residential mortgages; (ii) unutilized non-residential commercial loan advances; (iii) future advances for the home equity lines of credit; (iv) unutilized balances for credit card loans; and (v) unutilized balances for retail financing.

These credit arrangements are subject to the Bank's normal credit standards. The contract amounts for these commitments set out below represent the maximum credit risk exposure to the Bank, should the contracts be fully drawn and the counterparties default. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts do not necessarily represent the future cash requirements. Additionally, the Bank has the right to cancel the customers' credit arrangements at any time except for in the case of partially funded commitments. The following table presents the amounts of these credit commitments as at the indicated reporting dates.

thousands of Canadian dollars	December 31 2025	As at December 31 2024
Outstanding amounts for future advances on residential mortgages	**$ 767,280**	$ -
Unutilized non-residential commercial loan advances	**1,138,655**	-
Outstanding future advances for the home equity line of credit portfolios	**40,909**	-
Total outstanding amount for future advances on mortgage loans	**$ 1,946,844**	$ -
Unutilized credit cards and home equity line of credit balances	**$ 6,081,601**	$ 5,160,357
Unutilized retail point-of-sale commitments	**4,954,391**	4,027,091

(C) Contingencies

In the ordinary course of business, the Bank and its subsidiaries are involved in various legal actions. The Bank establishes legal provisions when it becomes probable that the Bank will incur a loss and the amount can be reliably estimated.

On a quarterly basis, management reevaluates its legal provisions to reflect the best estimate of the expenditure required to settle present obligations at the end of the reporting period. These evaluations did not result in the recognition of provisions during the year. There may also be claims outstanding for which the Bank has assessed the potential loss as reasonably possible to result; however, an estimate of the amount of the loss cannot reasonably be made. There are many reasons why the Bank cannot make these assessments, including, among others, one or more of the following: the early stages of the proceeding; damages sought are unspecified, unsupportable, unexplained or uncertain; discovery has not started or is incomplete; there are complex facts in dispute; the difficulty of assessing novel claims; the parties have not engaged in any meaningful settlement discussions; and the often slow pace of litigation. The Bank does not currently anticipate that these actions, either individually or collectively, will have a material adverse effect on the consolidated financial position of the Bank. However, given the uncertainties of litigation and the advice in relation to it, there is a possibility that the ultimate resolution of these actions may be material to the Bank's consolidated results of operations for any particular reporting period.

The Bank is not currently involved in any material legal actions.

20. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Bank uses interest rate swaps and bond forward contracts to hedge exposures related to interest rate risk to minimize volatility in earnings. When a hedging derivative functions effectively, gains, losses, revenues or expenses of the hedging derivative will offset the gains, losses, revenues or expenses of the hedged item. To qualify for hedge accounting treatment, the hedging relationship is formally designated and documented at its inception. The documentation describes the particular risk management objective and strategy for the hedge and the specific asset, liability or cash flow being hedged and how the effectiveness of the hedge is assessed, and the ineffectiveness is measured. Changes in the fair value of the derivative instruments must be highly effective at offsetting either the changes in the fair value of the on-balance sheet asset or liability being hedged or the changes in the amount of future cash flows.

Fair value represents point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. The fair value of derivatives is determined from swap curves adjusted for credit risks. Swap curves are obtained directly from market sources or calculated from market prices.

Hedge effectiveness is assessed at the inception of the hedge and on an ongoing basis, retrospectively and prospectively, over the life of the hedge. Any ineffectiveness in the hedging relationship is recognized immediately through non-interest income in net realized and unrealized gain or loss on derivatives. The main sources of ineffectiveness can be attributed to differences between hedging instruments and hedged items such as differences in discounting factors when derivatives are discounted using indexed swap curves, credit valuation adjustment on hedging derivatives, non-zero initial fair value of the hedging instrument, and mismatch in critical terms such as tenor and timing of cashflows between hedging instruments and hedged items.

Cash Flow Hedging Relationships

The Bank uses bond forward contracts to hedge the exposure to movements in interest rates between the time that the Bank determines that it will likely incur liabilities pursuant to asset securitization and the time the securitization transaction is complete, and the liabilities are incurred. The intent is to use the bond forwards to manage the change in cash flows of the future interest payments on the anticipated secured borrowings through asset securitization. Changes in the fair value of the derivative instrument that occur before the liability is incurred are recorded in AOCI. The fair value changes recorded in AOCI are reclassified into net interest income over the term of the hedged liability. To mitigate the interest rate exposure with respect to floating rate securitization liabilities, the Bank enters into floating-for-fixed interest rate swaps with eligible swap counterparties, whereby the Bank pays a fixed rate of interest in exchange for a floating rate of interest.

For cash flow hedges, the Bank uses the hypothetical derivative having terms that identically match the critical terms of the hedged item as the proxy for measuring the change in fair value of cash flows hedge.

The following table presents the total effects of cash flow hedges on the consolidated statements of income and the consolidated statements of comprehensive income:

thousands of Canadian dollars	For the year ended December 31, 2025					
	Change in value of hedged items for ineffectiveness measurement	Change in fair value of hedging instruments for ineffectiveness measurement	Hedge ineffectiveness	Hedging gains (losses) recognized in OCI (pre-tax basis)	Amount reclassified from AOCI to net income (pre-tax basis)	Effect on OCI (pre-tax basis)
Liabilities - interest rate risk	**$ (899)**	**$ 869**	**$ (30)**	**$ (899)**	**$ (5,804)**	**$ (6,703)**

thousands of Canadian dollars	For the year ended December 31, 2024					
	Change in value of hedged items for ineffectiveness measurement	Change in fair value of hedging instruments for ineffectiveness measurement	Hedge ineffectiveness	Hedging gains (losses) recognized in OCI (pre-tax basis)	Amount reclassified from AOCI to net income (pre-tax basis)	Effect on OCI (pre-tax basis)
Liabilities - interest rate risk	$ (2,081)	$ 2,078	$ (3)	$ (2,081)	$ (14,583)	$ (16,664)

The following table provides a reconciliation of AOCI related to total cash flow hedges on a pre-tax basis:

thousands of Canadian dollars	For the year ended December 31, 2025				
	AOCI at the beginning of the year	OCI[1]	AOCI at the end of the year	AOCI on designated hedges	AOCI on de-designated hedges
Liabilities - interest rate risk	**$ 5,042**	**$ 3,986**	**$ 9,028**	**$ 10,142**	**$ (1,114)**

thousands of Canadian dollars	For the year ended December 31, 2024				
	AOCI at the beginning of the year	OCI	AOCI at the end of the year	AOCI on designated hedges	AOCI on de-designated hedges
Liabilities - interest rate risk	$ 21,706	$ (16,664)	$ 5,042	$ 5,042	$ -

[1] OCI for the year ended December 31, 2025 includes $10,689 related to the business combination recognized upon the Bank's acquisition of HTC on January 1, 2025.

Fair Value Hedging Relationships

The Bank uses interest rate swaps to hedge changes in the fair value of fixed-rate assets and liabilities, which are associated with changes in market interest rates. Fair value hedges include hedges of fixed-rate assets, which include mortgages, and hedges of fixed-rate liabilities, which include deposits and securitization liabilities. The Bank assesses and measures the hedge effectiveness of fair value hedges based on the change in the fair value of the derivative hedging instrument relative to the change in the fair value of the hedged item attributable to benchmark interest rate risk.

The following table presents the effects of fair value hedges on the consolidated balance sheets and the consolidated statements of income:

thousands of Canadian dollars	For the year ended December 31, 2025				
	Change in value of hedged items for ineffectiveness measurement	Change in fair value of hedging instruments for ineffectiveness measurement	Hedge ineffectiveness gain (loss)	Carrying amounts for hedged items	Accumulated amount of fair value hedge adjustments on hedged items
Assets					
Interest rate risk					
Mortgages	**$ (12,561)**	**$ 12,783**	**$ 222**	**$ 4,294,351**	**$ 4,360**
Liabilities					
Interest rate risk					
Deposits	**3,509**	**(1,470)**	**2,038**	**4,873,036**	**32,854**
Total	**$ (9,052)**	**$ 11,313**	**$ 2,260**	**$ 9,167,387**	**$ 37,214**

The following table presents the derivative financial instruments outstanding as at December 31, 2025 and December 31, 2024. All the Bank's derivatives are designated in qualifying hedging relationships:

thousands of Canadian dollars, except average rate					As at December 31, 2025
Term (years)	Notional Amount	Average on Interest Rate	Derivative Asset	Derivative Liability	Net Fair Market Value
Derivatives in qualifying hedging relationships					
Interest rate risk					
Interest rate swaps designated in hedges[1]					
< 1 year	**$ 5,920,480**	**2.63%**	**$ 9,175**	**$ (17,392)**	**$ (8,217)**
1 to 5 years	**4,070,789**	**3.10%**	**49,833**	**(8,812)**	**41,021**
> 5 years	**43,385**	**2.69%**	**-**	**614**	**614**
Total	**$ 10,034,654**	**2.82%**	**$ 59,008**	**$ (25,590)**	**$ 33,418**
Bond forwards designated in hedges[1]					
< 1 year	**$ -**	**-**	**$ -**	**$ -**	**$ -**
1 to 5 years	**50,000**	**-**	**-**	**(57)**	**(57)**
> 5 years	**-**	**-**	**-**	**-**	**-**
Total	**$ 50,000**	**-**	**$ -**	**$ (57)**	**$ (57)**
Derivatives not in qualifying hedging relationships					
Bond forwards					
< 1 year	**$ -**	**-**	**$ -**	**$ -**	**$ -**
1 to 5 years	**-**	**-**	**-**	**-**	**-**
> 5 years	**4,400**	**-**	**-**	**(13)**	**(13)**
Total	**$ 4,400**	**-**	**$ -**	**$ (13)**	**$ (13)**
Total	**$ 10,089,054**	**2.82%**	**$ 59,008**	**$ (25,660)**	**$ 33,348**

thousands of Canadian dollars, except average rate					As at December 31, 2024
Term (years)	Notional Amount	Average Rate on Interest Rate Swaps	Derivative Asset	Derivative Liability	Net Fair Market Value
Derivatives in qualifying hedging relationships					
Interest rate risk					
Interest rate swaps designated in hedges[1]					
< 1 year	$ 325,930	2.74%	$ 3,342	$ (1,753)	$ 1,589
1 to 5 years	376,176	2.77%	(824)	-	(824)
> 5 years	47,894	2.74%	(337)	-	(337)
Total	$ 750,000	2.75%	$ 2,181	$ (1,753)	$ 428

[1] Average rate for interest rate swaps represents the weighted average received fixed rate.

The notional amount is not recorded as an asset or liability as it represents the face amount of the contract to which the rate or price is applied in order to calculate the amount of cash exchanged. Notional amounts do not represent the potential gain or loss associated with market risk and are not indicative of the credit risk associated with the derivatives.

The following table presents positive replacement cost, exposure at default and risk-weighted equivalent by class of derivative instrument as at December 31, 2025 and December 31, 2024. The values are calculated based on the capital adequacy requirements required by OSFI.

thousands of Canadian dollars			December 31 2025			As at December 31 2024
	Positive Replacement Cost	Exposure at Default	Risk-Weighted Equivalent	Positive Replacement Cost	Exposure at Default	Risk-Weighted Equivalent
Liabilities - interest rate risk	**$ 56,895**	**$ 182,970**	**$ 37,895**	$ 34	$ 7,013	$ 2,805

Derivative-Related Risks

The potential for derivatives to increase or decrease in value as a result of changes in relevant factors, such as interest rate, equity or indices changes, is referred to as market risk. Credit risk on derivatives, also known as counterparty credit risk, is the risk of a financial loss occurring as a result of the failure of a counterparty to meet its obligation to the Bank. These risks are actively managed by the Bank and are monitored independently by the Enterprise Risk Management group.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out in the following tables represent the fair values of the Bank's financial instruments. The valuation methods and assumptions are described below.

The estimated fair value amounts approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants that are under no compulsion to act at the consolidated balance sheet date in the principal or most advantageous market that is accessible to the Bank. For financial instruments carried at fair value that lack an active market, the Bank applies present value and valuation techniques that use, to the greatest extent possible, observable market inputs. Because of the estimation process and the need to use judgement, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Significant inputs are quoted (unadjusted) prices in active markets for identical assets or liabilities. This level includes cash and cash equivalents and quoted corporate debt instruments.

Level 2: Significant inputs are observable for the asset or liability, either directly or indirectly, and are not quoted prices included within Level 1. This level includes government-backed debt instruments, interest rate swaps, and certain corporate debt instruments.

Level 3: Significant inputs are unobservable for the asset or liability. This level includes retained interest, certain corporate debt instruments, mortgage loans, installment loans, credit cards and retail finance loans, securitization receivables and liabilities, other assets and liabilities, deposits, and liabilities arising from credit facilities.

The following table presents the fair value of financial instruments across the levels of the fair value hierarchy.

thousands of Canadian dollars				As at December 31, 2025	
	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Financial assets at FVTPL					
Cash and cash equivalents	$ 871,949	$ -	$ -	$ 871,949	$ 871,949
Debt securities	-	200,024	-	200,024	200,024
Derivative assets	-	58,995	-	58,995	58,995
Restricted assets	192,291	-	-	192,291	192,291
Total financial assets at FVTPL	1,064,240	259,019	-	1,323,259	1,323,259
Financial assets at FVOCI					
Debt securities	-	349,779	-	349,779	349,779
Retained interest owned	-	-	81,812	81,812	81,812
Total financial assets at FVOCI	-	349,779	81,812	431,591	431,591
Financial assets at amortized cost					
Residential mortgages	-	-	20,014,444	20,014,444	19,964,432
Commercial mortgages	-	-	2,597,287	2,597,287	2,585,408
Installment loans	-	-	3,844,558	3,844,558	3,879,398
Credit cards and retail finance	-	-	2,674,780	2,674,780	2,674,780
Securitization receivables	-	-	17,952	17,952	17,952
Other	-	-	360,199	360,199	360,199
Total financial assets at amortized cost	-	-	29,509,220	29,509,220	29,482,169
Total	$ 1,064,240	$ 608,798	$ 29,591,032	$ 31,264,070	$ 31,237,019
Financial liabilities at amortized cost					
Deposits	$ -	$ -	$ 23,873,295	$ 23,873,295	$ 23,858,955
Securitization liabilities	-	-	4,183,108	4,183,108	4,170,165
Credit Facilities	-	-	200,000	200,000	200,000
Other	-	-	788,294	788,294	788,294
Total financial liabilities at amortized cost	-	-	29,044,697	29,044,697	29,017,414
Financial liabilities at FVTPL					
Derivative liabilities	-	25,646	-	25,646	25,646
Total	$ -	$ 25,646	$ 29,044,697	$ 29,070,343	$ 29,043,060

21. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

thousands of Canadian dollars					As at December 31, 2024
	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Financial assets at FVTPL					
Cash and cash equivalents	$ 292,408	$ -	$ -	$ 292,408	$ 292,408
Derivative assets	-	2,181	-	2,181	2,181
Total financial assets at FVTPL	292,408	2,181	-	294,589	294,589
Financial assets at amortized cost					
Residential mortgages	-	-	422,672	422,672	437,344
Installment loans	-	-	3,627,492	3,627,492	3,644,989
Credit cards and retail finance	-	-	2,553,381	2,553,381	2,553,382
Other	-	-	145,421	145,421	145,421
Total financial assets at amortized cost	-	-	6,748,966	6,748,966	6,781,136
Total	$ 292,408	$ 2,181	$ 6,748,966	$ 7,043,555	$ 7,075,725
Financial liabilities at amortized cost					
Deposits	$ -	$ -	$ 4,341,974	$ 4,341,974	$ 4,254,421
Securitization liabilities	-	-	1,555,047	1,555,047	1,556,441
Other	-	-	314,308	314,308	314,308
Total financial liabilities at amortized cost	-	-	6,211,329	6,211,329	6,125,170
Financial liabilities at FVTPL					
Derivative liabilities	-	1,753	-	1,753	1,753
Total	$ -	$ 1,753	$ 6,211,329	$ 6,213,082	$ 6,126,923

The Bank did not transfer any financial instruments between Level 1, Level 2, and Level 3 of the fair value hierarchy during the years ended December 31, 2025 and December 31, 2024, except for the transfer of deposits from Level 2 to Level 3.

The following methods and assumptions were used to estimate the fair values of financial instruments:

- The fair value of cash and cash equivalents, restricted assets, other assets, credit facilities and other liabilities approximate their carrying values due to their short-term nature.
- Debt securities are generally valued based on the quoted bid price. Third-party MBS are fair valued using average dealer quoted prices.
- The fair value of the retained interest is determined by discounting the expected future cash flows using the current MBS spread over Government of Canada bonds imputed from recent sale transactions.
- The fair value of securitization receivables is determined by discounting the expected future cash flows using current interest rate swap rates.
- Residential and Commercial loans are carried at amortized cost in the financial statements. For fair value disclosures, the fair value is estimated by discounting the expected future cash flows of the loans, adjusting for credit risk and prepayment assumptions at current market rates for offered loans with similar terms.
- Installment loans fair value is estimated using a discounted cash flow model, wherein expected future cash flows of the loans are discounted using a discount rate that a market participant would use in valuing these assets. Fair value variations, as compared to amortized cost, reflect the changes in the pricing that occurred since the loans were originated or purchased.
- Credit cards and retail finance loans fair value is approximated to be equal to carrying value due to the short term expected life.
- Fair value of derivative financial instruments is calculated as described in Note 20.
- Deposits are not transferable by the deposit holders. In the absence of such transfer transactions, fair value of deposits is determined by discounting the expected future cash flows of the deposits at offered rates for deposits with similar terms. The fair value of the institutional deposit notes is determined using current rates of Government of Canada Bonds, plus a spread. The rates reflect the credit risks of similar instruments.
- Fair value of securitization liabilities is determined by discounting the expected future cash flows using their correspondent current market rates including market rates for MBS and the interest rate swap curve. Fair value variations, as compared to amortized cost represent the changes in the market interest rate since origination of the securitization facilities.

22. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise influence over the other party in making financial and operational decisions, or another party controls both. IFRS considers key management personnel to be related parties. The Bank considers its Directors and certain of its officers to be key management personnel. Salaries and post-employment benefits of key management personnel are as follows:

	For the years ended	
thousands of Canadian dollars	**December 31 2025**	December 31 2024
Short Term employee benefits[1]	**$ 4,443**	$ 4,302
Share Based Payments[2]	**1,991**	2,853
Other long-term benefits[3]	**126**	-
	$ 6,560	$ 7,155

[1] includes Salary, Benefits, Accrued Cash bonus.
[2] Includes RSUs/PSUs granted during the year (the grant value)
[3] other long-term benefits include Retirement Savings Plan (DCPP 2025)

The Bank recorded interest expense of $62.8 million (2024 – $43.8 million) and dividend income of $62.8 million (2024 – $44.0 million) from a related party related to with tax loss utilization planning, whereby the Parent Company's tax loss carryforwards are transferred to the Bank.

Following the acquisition of HCG described in Note 4, SFC became the ultimate controlling parent of the Bank. The owner and Chief Executive Officer of SFC is also a director of the Bank and has significant investments in a mortgage insurance company, a non-bank mortgage lender (the "related lender") and other entities. In the ordinary course of business, the Bank has transactions with both the mortgage insurance company and the related lender as described below. The Bank does not have any transactions with the other entities referred to above.

The mortgage insurance company referred to above provides insurance policies to the Bank's borrowers at market rates. In addition, the insurance company has also provided the Bank with portfolio insurance at market premiums. The amount of insurance claim settlements received by the Bank during the year ended December 31, 2025 was $15 thousand, net of bulk insurance premium paid (2024 – nil). As at December 31, 2025, $1.12 billion (2024 - nil) of the Bank's mortgages were insured by this mortgage insurance company.

The related lender referred to above originates and services mortgages for the Bank. Mortgages are generally originated through relationships the related lender has directly with mortgage borrowers and are transacted at market rates with the Bank. During the year, the Bank funded $187.9 million (2024 - nil) of mortgages pertaining to commitments that had been placed with the Bank and incurred $6.6 million in servicing fees (2024 - $7.6 million). As at December 31, 2025, the related lender administered a $3.97 billion (2024 – nil) mortgage portfolio for the Bank at market service rates. As at December 31, 2025, there was $166.1 million (2024 – nil) of outstanding mortgage commitments not yet funded to the related lender.

The Bank issues secured credit cards for the related lender. During the year ended December 31, 2025, the Bank approved $28.4 million of credit card commitments, advanced $16.7 million for credit card originations and paid $0.9 million of credit card origination fees to the related lender.

23. RISK MANAGEMENT

The Bank is exposed to various types of risk owing to the nature of the business activities it carries on. Types of risk to which the Bank is subject include capital adequacy, credit, market, liquidity and funding, operational, compliance, strategic and reputational risk. The Bank has adopted Enterprise Risk Management Framework (the "Framework" or "ERMF") as a discipline for managing risk. Through the ERMF approach to risk management is articulated by providing an overview of the principles, requirements, programs, and responsibilities that reinforce the organization's values and commitment to integrating strong risk management principles into its strategic planning process and business operations.

Significant exposures to liquidity and credit risks are described in Notes 4 and 5.

The Board is accountable for establishing the overall vision, mission, values, objectives and strategies of the Bank and setting the Bank's overall risk-bearing capacity and risk appetite. The Board challenges management's proposals and plans to ensure that the forecasted results and risk assessments are reasonable and in line with the Bank's capabilities, objectives and risk appetite. The Risk Committee ("RC") is responsible for reviewing and overseeing the management of the Bank's enterprise risk profile and performance against its risk appetite. The RC is responsible for oversight of the identification, measurement, monitoring and control of the Bank's

principal risks; key frameworks, policies, and risk limits established to control the Bank's exposures to its principal risks; the regulatory compliance management program; and the risk management function.

In addition to the above, the RC provides oversight of the independence and effectiveness of the Enterprise Risk Management (ERM) function, the Bank's relationship with its regulators and the effectiveness of the Bank's internal controls, including the effectiveness and independence of the Bank's finance, internal audit and compliance functions.

The Executive Management Team (EMT), led by the Chief Executive Officer, is responsible for recommending corporate strategy to the Board and for overseeing its execution. A critical component of its mandate is the implementation of the risk appetite and risk management frameworks. The EMT is also accountable for implementation of a sustainable risk and compliance culture and monitoring the Bank's business activities, and providing risk oversight for strategic, reputational and compliance risks. The most significant risks to the Bank are subject to more specific review, monitoring and assessment under the mandates of supporting risk management committees and sub committees. These committees recommend risk management policies for approval as proposed by Risk Management ("RM") and/or Corporate Compliance, proactively monitor and challenge management about specific risks under their mandates, and provide reporting to the RC on risk profile compared to the risk appetite and risk limits.

The RM group is mandated to work with management and the Board to support sustainable business performance through the independent identification, measurement, monitoring and reporting of all significant risks to the Bank, regardless of source. Working closely with management and the RC, the RM group recommends the Bank's overall risk appetite and limits, and develops and maintains an enterprise risk management framework and related risk governance structure to enable effective management of risk. It provides monitoring and oversight of the implementation of the risk appetite and risk management frameworks, including providing independent challenge and a current view of the Bank's risk profile by monitoring actual exposures against approved risk appetite, limits, policies and guidelines.

The Chief Compliance Officer (CCO), the Chief Anti-Money Laundering Officer (CAMLO) and the Corporate Compliance group are mandated to establish and maintain an enterprise-wide compliance framework (a set of controls and oversight processes) designed to mitigate the Bank's compliance risk. The Corporate Compliance group is an independent function that promotes a sound risk and compliance culture. The CCO and the CAMLO are responsible for expressing an independent opinion to the RC on the status, adequacy and effectiveness of the Bank's state of compliance on a periodic basis.

Internal Audit is mandated to independently assess and report to the Audit Committee and the Board on the effectiveness of governance, risk management and internal control processes.

The Finance group is mandated to establish and maintain a financial management framework (a set of controls and oversight processes). The Finance group has first line of defence responsibilities for implementing, monitoring and reporting on the effectiveness of controls. The Chief Financial Officer reports to management, the Board, and regulators on the performance of the Bank. The Finance group also updates the Bank's financial and capital plans with periodic forecasts, advises the Board of anticipated outcomes, and recommends revisions to capital plans and structures as appropriate.

Credit Risk

Credit risk is the risk of the loss of principal and/or interest from the failure of debtors and/or counterparties to honour their financial or contractual obligations to the Bank, for any reason. The Bank's overall exposure to credit risk is governed by a defined credit-specific risk appetite, risk limits, a Board-approved Credit Risk Policy, delegated lending authorities, and regular independent monitoring and reporting. The Credit Risk Committee establishes, implements and monitors credit risk-related policies and guidelines enterprise-wide, considering business objectives, risk appetite, planned financial performance and risk profile. Credit risk limits are established for all types of credit exposures, with geographic, product, property and security type limits established to cover all material classes of exposure. The Bank's Credit Risk Policy limits the total aggregate exposure to any entity or connection. The lines of business are responsible for managing the Bank's credit risks in accordance with approved policies and guidelines, and assessing overall credit conditions and exposures on an ongoing basis. The Credit Risk Committee, Capital Management Committee, the RM group and the RC of the Board provide oversight of the credit portfolio through ongoing reviews of credit risk management policies, lending practices, portfolio composition and risk profile, the adequacy of allowance for credit losses and the allocation of credit risk-based capital.

Market Risk

Investment Risk

Investment risk is the risk of loss of earnings and capital from changes in security prices and dividends in the investment portfolio, whether they arise from macroeconomic factors, the economic prospects of the issuer, or the availability of liquid markets, among other factors. The Bank's investment portfolio consists of government bonds.

The Bank's investment risk management framework is approved by the Asset/Liability Committee (ALCO) and the RC. The ALCO is responsible for defining and monitoring the Bank's investment portfolio and identifying investments that may be at risk of impairment. The ERM group conducts analysis of counterparties to assess if credit deterioration has resulted in an impairment of the investments. The Treasury group is responsible for managing the Bank's investment portfolio in accordance with approved policies

and for assessing the impact of market events on potential implications for its total value. The ERM group recommends policies, reviews procedures and guidelines, and provides enterprise-wide oversight and challenge of investment risk, including valuations.

Structural Interest Rate Risk

Structural interest rate risk is the risk of lost earnings or capital due to changes in interest rates. The objective of interest rate risk management is to ensure that the Bank can realize stable and predictable earnings over specific time periods despite interest rate fluctuations. The Bank has adopted an approach to the management of its asset and liability positions to prevent interest rate fluctuations from materially impacting future earnings and seeks to organically match liabilities to assets in terms of maturity and interest rate repricing through its actions in the deposit market in priority to accessing off-balance sheet solutions.

The Bank's market risk management framework includes interest rate risk policies that are approved by the ALCO and the RC. The ALCO is responsible for defining and monitoring the Bank's structural interest rate risk and reviewing significant maturity and/or duration mismatches, as well as developing strategies that allow the Bank to operate within its overall risk appetite. In addition, the ALCO oversees stress testing of structural interest rate risk using a number of interest rate scenarios. The Treasury group is responsible for managing the Bank's interest rate gaps in accordance with approved policies and assesses the impact of market events on the Bank's net interest income and economic value of shareholder's equity. The ERM group recommends prudent policies and guidelines and provides independent enterprise-wide oversight of all interest rate risk.

From time to time, the Bank enters into derivative transactions to hedge interest rate exposure resulting from duration mismatch between its fixed-rate mortgages and deposits. Where appropriate, the Bank will apply hedge accounting to minimize volatility in reported earnings from interest rate changes. All derivative contracts are over-the-counter contracts with highly rated Canadian financial institutions. The use of derivative products has been approved by the Board; however, permitted usage is governed by specific policies. Derivatives are only permitted for hedging purposes; the use of derivatives is not permitted for transactions that are undertaken to potentially create trading profits through speculation on interest rate movements.

The Bank uses two main metrics to quantify its interest rate risk exposure. These metrics measure the impact on the Bank's future net interest income and the economic value of shareholder's equity for a given change in interest rates. The metrics are calculated using a number of different yield curve scenarios including parallel up/down movements, curve flattening and curve steepening. In calculating its interest rate risk exposure, behavioural assumptions are used to model elements such as loan prepayments, commitment funding ratios and cashable deposit redemptions. These assumptions are back tested and reviewed regularly.

The following table provides measurements of interest rate sensitivity and the potential after-tax impact of an immediate and sustained 100 basis-point increase or decrease in interest rates on net interest income and on the economic value of shareholder's equity.

				As at
thousands of Canadian dollars	**December 31 2025**	December 31 2024	**December 31 2025**	December 31 2024
	Increase in interest rates		Decrease in interest rates	
100 basis point shift				
Impact on net interest income, after tax (for the next 12 months)	**$ 815**	$ 13,586	**$ (917)**	$ (13,781)
Impact on net present value of shareholder's equity	**1,360**	34,852	**(1,708)**	(35,653)

Liquidity and Funding Risk

Liquidity and funding risk is the risk that the Bank is unable to generate or obtain sufficient cash or equivalents in a timely manner and at a reasonable cost to meet its financial obligations (both on- and off-balance sheet) as they become due. This risk will arise from fluctuations in the Bank's cash flows associated with lending, deposit-taking, investing and other business activities. The Bank's liquidity and funding risk management practices are consistent with OSFI's Liquidity Adequacy Requirement (LAR) guideline.

The High-Interest Savings Accounts and Oaken Savings Accounts add to liquidity risk as depositors can withdraw deposits without notice in the absence of fixed contractual terms. The Bank strategically limits demand deposits to an appropriate level that is aligned with the Bank's liquidity and funding limits, taking into consideration that a primary purpose of the Oaken Savings Accounts is to facilitate the seamless movement of funds to and from Oaken GICs for customers.

The Bank's liquidity risk management framework includes a three-year enterprise funding plan, liquidity and funding risk policies, and a contingency funding plan that are approved by the ALCO and the RC. The mandate of the ALCO includes establishing and recommending to the Board an enterprise-wide liquidity risk appetite. In addition, the ALCO reviews the composition and term structure of assets and liabilities, reviews liquidity and funding risk policies and strategies and regularly monitors compliance with

those policies. The ALCO also oversees the stress testing of liquidity and funding risk and the testing of the Bank's contingency funding plan. The Treasury group is responsible for managing the Bank's liquidity and funding risk positions in accordance with approved policies and assesses the impact of market events on liquidity requirements on an ongoing basis. The ERM group recommends liquidity policies and guidelines, and provides independent oversight of all liquidity and funding risk.

The Bank's annual three-year funding plan assesses future funding needs and how the Bank intends to fulfill these requirements as measured against the Bank's risk appetite. Securing sustainable diversified funding at a reasonable cost and acceptable level of liquidity risk is fundamental to the Bank realizing its future growth potential.

The Bank's liquidity and funding risk policies address several key elements, such as the minimum levels of liquid assets to be held at all times; the composition of types of liquid assets to be maintained; daily monitoring of the liquidity position by Treasury, senior management, and the ERM group; monthly reporting to the ALCO; and quarterly reporting to the RC.

The Bank uses a liquidity horizon as its main liquidity metric. Using maturity gap analysis, the Bank projects a time horizon when its net cumulative cash flow turns negative, after taking into account the market value of its stock of liquid assets. The Bank's liquidity horizon is calculated daily and is based upon contractual and behavioural cash flows. Forecasts are made using normal market conditions and a number of stressed liquidity scenarios, including ability to fund, term deposit runoff, demand deposit runoff, loan growth, liquidity portfolio valuation, loan arrears and write-downs.

24. EXPECTED ACQUISITION OF LAURENTIAN BANK OF CANADA

On December 2, 2025, the Parent Company entered into a definitive agreement to acquire all of the issued and outstanding common shares of the Laurentian Bank of Canada, a Schedule I bank providing a broad range of financial services and advisory solutions to clients across Canada and the United States. The transaction is expected to close in the second half of 2026, subject to customary regulatory approvals.