Financial Statements of

SBI Canada Bank

December 31, 2020

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Table of contents

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Independent Auditor's Report

To the Shareholder of
SBI Canada Bank

Opinion

We have audited the financial statements of SBI Canada Bank (the "Bank"), which comprise the statement of financial position as at December 31, 2020, and the statements of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Bank for the period ended December 31, 2019 were audited by another auditor who expressed an unmodified opinion on those statements dated on March 27, 2020.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the 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 Financial Statements

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

March 25, 2021

SBI Canada Bank

Statement of financial position

as at December 31, 2020

(In thousands of Canadian dollars)

	Note	**2020**	2019
		$	$
Assets			
Cash and bank balances:			
Notes and coins		**682**	768
Deposits with banks:			
Interest bearing		**115,383**	44,092
Non-interest bearing		**13,727**	16,282
		129,792	61,142
Investment securities	4	**27,185**	66,400
Loans and advances to customers	5	**1,082,033**	1,062,620
Derivative assets	19	**4,900**	2,241
Property and equipment	7	**7,847**	10,341
Intangible assets	8	**137**	63
Deferred tax assets	13	**1,798**	1,181
Other assets	9	**6,155**	6,950
Total assets		**1,259,847**	1,210,938
Liabilities			
Deposits from banks	10	**49,299**	74,173
Deposits from customers	11	**1,003,880**	926,632
Derivative liabilities	19	**67**	69
Other liabilities	12	**27,088**	33,589
Subordinated debt	16	**20,000**	20,000
		1,100,334	1,054,463
Shareholder's equity			
Common share capital	17	**117,784**	117,784
Contributed surplus		**5,934**	5,934
Retained earnings		**35,705**	32,708
Accumulated other comprehensive income (loss)		**90**	49
		159,513	156,475
Total liabilities and shareholder's equity		**1,259,847**	1,210,938

Approved by the Board of Directors

A. Kerim Director

Director

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

SBI Canada Bank

Statement of comprehensive income
for the year ended December 31, 2020

(In thousands of Canadian dollars)

	Note	**2020**	2019
		$	$
Interest income:			
Loans		**36,541**	38,678
Deposits		**894**	1,152
Investment securities		**686**	1,773
		38,121	41,603
Interest expense:			
Deposits and other	12	**20,291**	20,203
Subordinated debt		**485**	635
		20,776	20,838
Net interest income		**17,345**	20,765
Other income	14	**4,589**	4,892
Total revenue		**21,934**	25,657
Net impairment loss on loans and advances		**2,270**	322
Non-interest expenses:			
Personnel		**7,551**	6,962
Premises and equipment		**2,096**	1,964
Depreciation and amortization	7&8	**1,553**	1,329
Other	15	**4,281**	4,930
		15,481	15,185
Net income before income taxes		**4,183**	10,150
Provision for income taxes	13	**1,186**	2,690
Net income for the year		**2,997**	7,460
Other comprehensive income / (loss), net of income tax:			
Change in unrealized losses in investment securities at fair value through other comprehensive income net of income tax expenses of $30 (2019 - expense of $178)		**82**	492
Provision for credit losses in debt securities at fair value through other comprehensive income recognized in income		**(41)**	10
Total comprehensive income for the year		**3,038**	7,962

SBI Canada Bank

Statement of changes in equity

for the year ended December 31, 2020

(In thousands of Canadian dollars)

2020	**Common share capital**	**Contributed surplus**	**Accumulated other comprehensive Income (loss)**	**Retained earnings**	**Total**
	$	**$**	**$**	**$**	**$**
Balance as at January 1, 2020	**117,784**	**5,934**	**49**	**32,708**	**156,475**
Comprehensive income:					
Net income for the year	**-**	**-**	**-**	**2,997**	**2,997**
Other comprehensive income, net of income tax expenses of $30:					
Net amount transferred to the Statement of comprehensive income	**-**	**-**	**(13)**	**-**	**(13)**
Net change in unrealized gain on: FVOCI securities	**-**	**-**	**54**	**-**	**54**
Dividend paid	**-**	**-**	**-**	**-**	**-**
Total comprehensive income	**-**	**-**	**41**	**2,997**	**3,038**
Balance as at December 31, 2020	**117,784**	**5,934**	**90**	**35,705**	**159,513**

2019	Common share capital	Contributed surplus	Accumulated other comprehensive Income (loss)	Retained earnings	Total
	$	$	$	$	$
Balance as at January 1, 2019	117,784	5,934	(453)	25,875	149,140
Comprehensive income:					
Net income for the year	-	-	-	7,460	7,460
Other comprehensive income, net of income tax expenses of $178:					
Net amount transferred to the Statement of comprehensive income	-	-	82	-	82
Net change in unrealized loss on FVOCI securities			420	-	420
Dividend paid	-	-	-	(627)	(627)
Total comprehensive income	-	-	502	6,833	7,335
Balance as at December 31, 2019	117,784	5,934	49	32,708	156,475

SBI Canada Bank

Statement of cash flows
for the year ended December 31, 2020

(In thousands of Canadian dollars)

	2020	2019
	$	$
Operating activities		
Net income for the year	**2,997**	7,460
Adjustments for:		
Provision for (recovery of) credit losses	**2,262**	327
Net gain on sale of investment securities	**(39)**	(46)
Depreciation and amortization	**1,553**	1,329
Loss on disposal of property and equipment	**4,126**	7
Gain on disposal / adjustment of intangible	**(50)**	-
Net interest income	**(17,345)**	(20,765)
Income tax expense	**1,186**	2,690
Addition of Right of Use asset	**-**	(10,678)
Changes in:		
Net change in derivative financial instruments	**(2,661)**	(3,451)
Loans and advances to customers, net	**(21,716)**	(88,318)
Other assets	**(1,159)**	(4,990)
Deposits from banks, net	**(24,874)**	20,707
Deposits from customers, net	**77,248**	67,797
Other liabilities and provisions	**(5,546)**	14,490
Interest receivable	**38,242**	41,822
Interest payable	**(20,774)**	(18,969)
Cash generated from (used in) operating activities	**33,450**	9,412
Investing activities		
Net change in interest-bearing deposits	**(71,291)**	(10,802)
Proceeds from sale of investment securities	**63,300**	58,105
Purchase of investment securities	**(23,934)**	(51,854)
Purchase of property and equipment	**(3,170)**	(246)
Purchase of intangibles	**(39)**	-
Cash (used in) generated from investing activities	**(35,134)**	(4,797)
Financing activities		
Payment of lease liabilities	**(957)**	(887)
Payment of dividend	**-**	(627)
Cash (used in) financing activities	**(957)**	(1,514)
Net changes in cash and cash equivalents	**(2,641)**	3,101
Cash and cash equivalents, beginning of year	**17,050**	13,949
Cash and cash equivalents, end of year	**14,409**	17,050
Represented by:		
Cash and non-interest bearing bank balances	**14,409**	17,050
	14,409	17,050

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

Notes to the financial statements

1. Reporting entity

SBI Canada Bank (the "Bank") is a wholly owned subsidiary of State Bank of India (the “parent bank”) and is licensed to operate in Canada as a bank with full banking powers under the *Bank Act* (Canada) as a foreign bank subsidiary. The Bank’s registered office is at 77 City Centre Drive, Suite 106, Mississauga, Ontario L5B 1M5, Canada. The Bank is involved in corporate and retail banking.

2. Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with Section 308(4) of the *Bank Act* (Canada), which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada (“OSFI”), the financial statements are to be prepared in accordance with generally accepted accounting principles the primary source of which is the Chartered Professional Accountants Canada Handbook (the “Handbook”). The financial statements comply with Part 1 of the Handbook, International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The financial statements for the year ended December 31, 2020 were authorized for issue by the Bank's Board of Directors on March 25, 2021.

b) Basis of measurement

These financial statements have been prepared on the historical cost basis except for Fair Value through Other Comprehensive Income (“FVOCI”) securities and derivative assets and derivative liabilities which are measured at fair value.

c) Functional and presentation currency

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

d) Use of estimates and assumptions

The preparation of the financial statements in conformity with IFRS requires management to make subjective estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. Estimates made by management are based on historical experience and other assumptions that are believed to be reasonable. Key sources of estimation uncertainty include the allowance for impairment on loans and advances to customers (see Note 5), income taxes (see Note 13) and determination of fair value of financial instruments (see Note 22). Actual results may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

e) Significant judgments

In the preparation of these financial statements, management is required to make significant judgments that affect the carrying amounts of certain assets and liabilities, and the reported amounts of revenue and expenses recorded during the year. Significant judgments have been made in the impairment assessment on loans and advances to customers, income taxes and determination of the fair value of financial instruments.

3. Significant accounting policies

The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of OSFI, are summarized below. These accounting policies conform, in all material respects, to IFRS.

a) *Cash and cash equivalents*

Cash and cash equivalents comprise cash, deposits with banks and highly liquid investments that are convertible to cash and subject to insignificant risk of changes in value. Such investments have an original term to maturity of less than three months from the date of acquisition. Cash and deposits with banks are carried at amortized cost in the statement of financial position.

b) *Financial instruments*

Classification and measurement

In accordance with IFRS 9, *Financial Instruments* (“IFRS 9”), a financial asset is classified and measured based on the business model in which it is managed and the contractual cash flow characteristics of the financial asset.

The Bank’s loans are measured at amortized cost, securities at either amortized cost or fair value through other comprehensive income (FVOCI), and equity shares at FVOCI less any provision for impairment. Financial liabilities are measured at amortized cost. All other financial instruments have been designated in fair value through profit or loss (FVTPL).

For FVOCI investments, gains and losses arising from changes in fair value are recognized directly in equity, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity, determined using the weighted average cost method, is included in the net profit or loss for the period.

The Bank assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Bank makes an estimate of the recoverable amount. If the recoverable amount is less than the value of the investment, the investment is considered to be impaired and is written down to its recoverable amount. An impairment loss is recognized immediately in the profit and loss account. Purchases and sales of securities transactions are accounted for on a settlement date basis

Impairment

The impairment model for measuring impairment of financial assets is the expected credit loss (“ECL”) model. ECL is based on probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”) inputs and takes into account the expected timing of the loss. The ECL model also incorporates forward-looking economic information, primarily forecasts of the Canada unemployment rate, Canada housing price index, Bank of Canada overnight interest rate, the level of the Toronto Stock Exchange index (TSX), the 3-month US Treasury bill rate, the USD/CAD exchange rate as well as the use of experienced credit judgment, where applicable. There is significant management judgment involved in determining the ECL estimate based on the ECL model.

3. Significant accounting policies (continued)

b) Financial instruments (continued)

Impairment (continued)

The Bank's impairment model measures credit loss allowances using a three-stage approach, based on the extent of credit deterioration since origination:

- Stage 1 – for financial assets that have not experienced a significant increase in credit risk since initial recognition, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months.
- Stage 2 – for financial assets that have experienced a significant increase in credit risk, but are not considered to be in default, the allowance is based on the probability of default over the remaining estimated life of the loan. This stage includes loans that are 30 days past due.
- Stage 3 – financial assets that are considered to be in default, which includes those financial assets that are 90 days past due, are included in this stage and the allowance for credit losses captures the lifetime expected credit losses.

The Bank's definition of default used to identify impaired financial assets includes financial assets that are more than 90 days past due. The definition of default used in the measurement of ECL and the assessment for movement between stages is consistent with the definition of default used for internal credit risk management purposes.

Hedge accounting

The Bank has not applied hedge accounting during the years ended December 31, 2020 and 2019.

Allowance for credit losses

The Bank maintains an allowance for credit risk allowances ("allowance") that represents management's estimate of expected credit losses for financial assets as of the date of the Statement of Financial Position. The allowance is a function of PD, LGD and EAD, and incorporates the expected timing of losses.

PD represents the likelihood that a financial asset will default over the following twelve months or, depending on credit deterioration from origination of the financial asset over the expected life of the loan. LGD is the amount that is expected not to be recovered in the event of default. EAD is the estimate of the outstanding amount of credit exposure at the time a default may occur. For undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default. These inputs are modelled based on historical data and reasonable and supportable information about future economic conditions, where appropriate.

Where modelling of a parameter is carried out on a collective basis, the financial assets are grouped on the basis of share risk characteristics that include instrument type, credit risk rating, industry and geographical location of the borrower. The groupings are subject to regular review to ensure that exposures within a particular group remain approximately homogeneous. All loans and other financial instruments except for non-mortgage retail loans are assessed on an individual basis, as per Credit Allowance Policy of the bank.

(in thousands of Canadian dollars)

3. Significant accounting policies (continued)

b) Financial instruments (continued)

Significant increase in credit risk

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information and the impact of forward-looking macroeconomic factors. For loans and securities, significant increase in credit risk is assessed at the segment level and considers the proportionate change in PD, as well as the absolute change in PD. The thresholds used for PD migration are reviewed and assessed by management at least annually.

The Bank's impairment model measures credit loss allowances using the above-mentioned three-stage approach, based on the extent of credit deterioration since origination. As credit risk changes each period, a financial asset can transfer between stages.

Forward-looking macroeconomic information

The allowance reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts. The inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses associated with the Bank's portfolio.

The measurement of ECL for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information relies on the Bank's management to exercise significant judgment.

In evaluating the ECL model output, the Bank relies on a range of forward-looking information. The final determination of ECL is based on the model's output that uses probability-weighted scenario (Pessimistic: 30%, Base: 50% and Optimistic: 20%). As per this scenario, the total ECL as of December 31, 2020 is $5,408 whereas it is $5,319 under base-case scenario (without stage 3 assets).

	2020			**2019**		
	Pessimistic (30%) 12 months	**Base (50%) 12 months**	**Optimistic (20%) 12 months**	**Pessimistic (30%) 12 months**	**Base (50%) 12 months**	**Optimistic (20%) 12 months**
Canada unemployment rate (%)	8.10	7.90	7.70	6.19	5.90	5.61
Canada housing price index	101.60	105.40	109.30	98.94	104.00	109.05
Bank of Canada overnight interest rate (%)	(0.19)	0.25	0.70	0.98	1.57	2.15
Toronto Stock Exchange index (TSX)	16,377	17,134	17,892	15,040	16,029	17,016
3-month Treasury bill rate (%)	(0.30)	0.14	0.58	1.07	1.55	2.21
USD/CAD exchange rate	1.31	1.26	1.20	1.40	1.33	1.26

3. Significant accounting policies (continued)

b) Financial instruments (continued)

Definition of default and write-off

The Bank considers a financial asset to be in default as a result of one or more loss events that occurred after the loss event has a negative impact on the estimated future cash flows of the financial assets that can be reliably estimated. The Bank considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due.

The Bank writes-off an impaired financial asset and the related impairment allowance, either partially or in full, when there is no realistic prospect of further recovery. In subsequent periods, any recoveries of amounts previously written-off as a result of a debt sale or other repayment, the amount is credited to the provision for credit losses.

b) Financial instruments (continued)

Modifications

From time to time the Bank may modify the contractual terms of a loan due to a change in the financial condition of the borrower in a way that represents a fundamental change to the contract or changes that may have a significant impact on the contractual cashflow of the asset. In this case, the Bank assesses such renegotiated loans for impairment consistent with the existing policies for impairment. When renegotiation leads to significant concessions being granted, and the concessions are for economic or legal reasons related to the borrower's financial difficulty that the Bank would not otherwise consider, the loan is assessed for modification and possible derecognition. The Bank considers one or a combination of the following to be significant changes: (1) a change of the stated interest rate, (2) an extension of the maturity date or dates at a stated interest rate lower than the current market rate for a new loan with similar terms, or (3) forgiveness of principal or accrued interest.

Additionally, during 2020, to provide temporary financial relief to customers affected by the economic consequences of COVID-19, the Bank offered certain relief program, including payment deferral options for residential mortgages, home equity loans, personal loans and commercial mortgage loans. These have now expired and any and all customers who were granted such relief have returned to their original payment terms or have repaid their loans in full.

c) Derivative financial instruments

Derivative instruments are financial contracts whose value is derived from interest rates, foreign exchange rates, commodity, equity prices or other financial variables.

Derivative financial instruments are recorded on the statement of financial position at fair value and include consideration of credit risk. These are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. Changes in fair value of derivative financial instruments are recognized in the statement of comprehensive income. The Bank has not designated any derivatives in hedging relationships.

Derivatives may be embedded in other financial instruments. Derivatives embedded in other financial instruments are valued as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract; the terms of the embedded derivative would meet the definition of a derivative if it was a free standing instrument; and the combined contract is not classified as held-for-trading or designated at fair value. These embedded derivatives are accounted for depending on their classification and are presented in the statement of financial position together with the host contract.

3. Significant accounting policies (continued)

d) Property and equipment

Property and equipment include furniture and equipment, computers and leasehold improvements. Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Gains and losses on disposal of these assets are recorded in other income in the year of disposal.

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value and is recognized in the statement of comprehensive income on a declining-balance method over the estimated useful lives of the asset. Depreciation methods, useful lives and residual values are reviewed annually and adjusted if appropriate.

The annual depreciation rates for furniture and equipment and computers are as follows:

Furniture and equipment	20%
Computers	30%

Leasehold improvements are amortized over the term of the related lease using the straight-line method.

The Bank has adopted IFRS 16 *Leases* ("IFRS 16"), which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The Bank assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. If a contract contains a lease, the Bank will recognize a right-of-use asset ("ROU") and a lease liability at the lease commencement date. The ROU asset and lease liability are initially measured as an amount equal to the present value of the remaining lease payments over the lease. The discount rate to be used is the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. The Bank uses its incremental borrowing rate as the discount rate.

The ROU is depreciated to the earlier of the end of the useful life or lease term using the straight-line method as this reflects the expected pattern of use. At each reporting date, the ROU asset is tested for impairment. If an impairment event has occurred, then an impairment loss is recognized.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in rates or there is a change in the Bank's estimate of the amount expected to be payable.

e) Intangible assets

Intangible assets are purchased computer software that is not an integral part of the related hardware.

Cost includes expenditure that is directly attributable to the acquisition of the software. Gains and losses on disposal of these assets are recorded in other income in the year of disposal.

Depreciation is calculated over the depreciable amount, which is the cost of the software less its residual value and is recognized in the statement of comprehensive income on a declining-balance method over the estimated useful lives of the asset. Depreciation methods, useful lives and residual values are reviewed annually and adjusted if appropriate.

3. Significant accounting policies (continued)

The annual depreciation rates for various software are as follows:

Banking system software	25%
Other software	30%

f) Acceptances

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on by customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The Bank's potential liability under acceptances is reported as a liability in the statement of financial position. The Bank's recourse against the customer in the event of a call on any of these commitments is reported as an asset of the same amount. Fees earned are reported as other income.

g) Provisions

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

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Bank; or are present obligations that have arisen from past events that are not recognized because it is not probable that settlement will require an outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed unless the probability of settlement is remote.

h) Guarantees

A guarantee is defined to be a contract that contingently requires the Bank to make payments to a third party based on: (a) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty, (b) failure of another party to perform under an obligating agreement or (c) failure of another third party to pay its indebtedness when due. Significant guarantees that the Bank has provided to third parties include guarantees and standby letters of credit. These are considered guarantees and represent obligations to make payments to third parties, on behalf of customers, if they are unable to make required payments or to meet other contractual requirements. Collateral requirements for guarantees and standby letters of credit are consistent with collateral requirements for loans.

3. Significant accounting policies (continued)

i) Interest

Interest income and expense are recognized in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:

- interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis; and
- interest on Available for Sale (AFS) investment securities calculated on an effective interest basis.

j) Foreign currency transactions

Transactions in foreign currencies are translated into Canadian dollars at the spot exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Canadian dollars at the exchange rate at that date. Foreign currency non-monetary items that are measured at historical cost are translated into Canadian dollars at historical rates. Foreign currency non-monetary items measured at fair value are translated into Canadian dollars using the rate of exchange at the date the fair value was determined.

Translation gains and losses related to the Bank's monetary items are recognized in the statement of comprehensive income. Revenues and expenses denominated in foreign currencies are translated using average exchange rates. Translation gains and losses related to changes in the amortized cost of Canadian-dollar denominated monetary asset classified as AFS are recognized in the statement of comprehensive income, and other changes in the carrying amount, except impairment, are recognized in other comprehensive income.

k) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in other comprehensive income.

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax

3. Significant accounting policies (continued)

authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

l) Related party transactions

Unless otherwise stated, all related party transactions are considered to be in the normal course of operations and are measured at the exchange amount, being the amount of consideration established and agreed to between the related parties.

m) Share capital

Common shares are classified as common share capital within shareholder's equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from common share capital, net of any tax effects.

n) Loan fees, prepayment fees, commitment fees and origination costs

Loan origination costs are deferred and amortized into income using the effective interest method over the expected term of the loan. Loan fees are recognized in other income over the appropriate lending or commitment period. Prepayment fees are recognized in other income when received, unless they relate to a minor modification to the terms of the financial asset, in which case the fees are deferred and amortized using the effective interest method over the remaining period.

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

o) Standards adopted in the current year

The Bank has not adopted any new accounting standard in the year ended December 31, 2020.

(in thousands of Canadian dollars)

4. Investment securities

(a) Carrying Value of securities

(i) FVOCI Securities

As at December 31, the fair value of FVOCI securities is as shown below:

	2020				2019			
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value of securities**	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value of securities
	$	**$**	**$**	**$**	$	$	$	$
Government bonds	**27,112**	**73**	-	**27,185**	23,378	-	(92)	23,286
Corporate bonds	-	-	-	-	42,942	96	(20)	43,018
Corporate equities	-	-	-	-	95	1	-	96
	27,112	**73**	-	**27,185**	66,415	97	(112)	66,400

As at December 31, the composition and maturity profile of FVOCI securities are as follows:

	2020				2019			
	Under 1 year	**2 to 5 years**	**With no specific maturity**	**Total**	Under 1 year	2 to 5 years	With no specific maturity	Total
	$	**$**	**$**	**$**	$	$	$	$
Government bonds	**12,256**	**14,929**	-	**27,185**	16,075	7,211	-	23,286
Corporate bonds	-	-	-	-	34,036	8,982	-	43,018
Corporate equities	-	-	-	-	-	-	96	96
Total	**12,256**	**14,929**	-	**27,185**	50,111	16,193	96	66,400

As at December 31, 2020, interest-bearing bonds with stated interest rates of 1.95% to 9.50% (2019 - 2.45% to 5.84%) are included within the above FVOCI securities, and does not include any security (2019 - $9,431 which were principally U.S. dollar-denominated) denominated in foreign currencies.

The bank was allocated equity shares as a part of resolution plan on a loan exposure and were held under lock-in. After the lock-in was lifted in August 2020, it was discussed in ALCO committee to explore the options to sell off these shares and accordingly the shares were sold. At the time of sale, the FV of the shares was $107 and the cumulative gain on sale was $30.

(in thousands of Canadian dollars)

5(a). Loans and advances to customers

As at December 31, an analysis of the Bank's loan portfolio by category is as follows:

	2020			2019		
	Gross amount	**Allowance for loan losses**	**Carrying amount**	Gross amount	Allowance for loan losses	Carrying amount
	$	**$**	**$**	$	$	$
Retail customers:						
Mortgage lending	**93,659**	**497**	**93,162**	100,980	336	100,644
Personal loans	**20,693**	**5**	**20,688**	28,015	6	28,009
	114,352	**502**	**113,850**	128,995	342	128,653
Corporate customers:						
Mortgage lending	**420,220**	**224**	**419,996**	378,822	564	378,258
Syndication	**543,637**	**4,749**	**538,888**	549,858	2,266	547,592
Other	**9,299**	**-**	**9,299**	8,117	-	8,117
	973,156	**4,973**	**968,183**	936,797	2,830	933,967
	1,087,508	**5,475**	**1,082,033**	1,065,792	3,172	1,062,620

As at December 31, 2020, loans and advances to customers include $395,399 (2019 - $393,040) denominated in foreign currencies, which are principally U.S. dollar-denominated.

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 bank holds collateral on all its mortgage portfolio in the form of real property. The fair value of collateral held against mortgages is based on appraisals at the time the loan was originated. Appraisals are only updated should circumstances warrant. At December 31, 2020, the total appraised value of the collateral held for impaired mortgage (Stage 3), as determined when the mortgage was originated was $685.

(in thousands of Canadian dollars)

5(b). Allowance for credit losses for loans and advances to customers

	2020	2019
	$	$
Specific allowance for impairment:		
Balance at January 1	**75**	-
Impairment loss for the year:		
Charges (recovery) for the year	**25**	75
Write-offs	**-**	-
Other movements	**-**	-
Balance at December 31	**100**	75
Collective allowance for impairment:		
Balance at January 1	**3,097**	2,847
Impairment loss for the year:		
Charges for the year	**2,278**	250
Other movements	**-**	-
Balance at December 31	**5,375**	3,097
Total allowances	**5,475**	3,172

5(c). Credit risk exposure and allowance

The following table sets out the Bank's credit risk exposure for all financial assets and loan commitments as at December 31, 2020 and 2019. Stage 1 represents those performing assets with a 12-month expected credit loss allowance, Stage 2 represents performing loans with a lifetime expected credit loss allowance, and Stage 3 represents impaired loans with a lifetime credit loss allowance.

2020				
(Thousands of Canadian dollars)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial Assets				
A. SBIC 0 to 12	1,036,647	164,773	-	1,201,420
B. SBIC 13	-	40,816	-	40,816
C. SBIC 14	-	2,532	-	2,532
D. Impaired	-	-	512	512
Gross Carrying Amount	**1,036,647**	**208,121**	**512**	**1,245,280**
Loss Allowance	1,768	3,638	100	5,506
Net Carrying Amount	**1,034,879**	**204,483**	**412**	**1,239,774**

(Thousands of Canadian dollars)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan commitments				
A. SBIC 0 to 12	101,158	6,259	-	107,417
B. SBIC 13	-	-	-	-
C. SBIC 14	-	-	-	-
D. Impaired	-	-	-	-
Gross Carrying Amount	**101,158**	**6,259**	**-**	**107,417**
Loss Allowance	2	-		2
Net Carrying Amount	**101,156**	**6,259**	**-**	**107,415**

(in thousands of Canadian dollars)

5(c). Credit risk exposure and allowance (continued)

2019				
(Thousands of Canadian dollars)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial Assets				
A. SBIC 0 to 12	990,886	123,639	-	1,114,525
B. SBIC 13	-	15,929	-	15,929
C. SBIC 14	-	2,640	-	2,640
D. Impaired	-	-	512	512
Gross Carrying Amount	**990,886**	**142,208**	**512**	**1,133,606**
Loss Allowance	2,146	1,015	75	3,236
Net Carrying Amount	**988,740**	**141,193**	**437**	**1,130,370**

(Thousands of Canadian dollars)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan commitments				
A. SBIC 0 to 12	71,957	8,470	-	80,427
B. SBIC 13	-	-	-	-
C. SBIC 14	-	-	-	-
D. Impaired	-	-	-	-
Gross Carrying Amount	**71,957**	**8,470**	**-**	**80,427**
Loss Allowance	2	-		2
Net Carrying Amount	**71,955**	**8,470**	**-**	**80,425**

The following table shows the continuity in the loss allowance for financial assets and loan commitments for the year ended December 31, 2020.

2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	$	**$**	**$**	**$**
Balance at January 1	2,148	1,015	75	3,238
Charges (recovery) for the year	(378)	2,623	25	2,270
Balance at December 31	**1,770**	**3,638**	**100**	**5,508**

(in thousands of Canadian dollars)

5(c). Credit risk exposure and allowance (continued)

The bank has following internal risk rating categories:

Risk Rating	Category
SBIC0	Extremely Low Risk
SBIC1	Very Low Risk
SBIC2	Very Low Risk
SBIC3	Low Risk
SBIC4	Low Risk
SBIC5	Normal Risk
SBIC6	Normal Risk
SBIC7	Medium Risk
SBIC8	Medium Risk
SBIC9	Medium Risk
SBIC10	High Risk
SBIC11	High Risk
SBIC12	High Risk
SBIC13	Especially Mentioned Account
SBIC14	Sub-Standard
SBIC15	Doubtful
SBIC16	Loss

6. Allowance for undrawn commitments

	2020	2019
	$	$
Undrawn commitments	**107,417**	80,428
Allowance for undrawn commitments:		
Balance at January 1	**2**	-
Charges for the year	**-**	2
Other movements	**-**	-
Balance at December 31	**2**	2

The allowance for undrawn commitments is included in other liabilities in the statement of financial position.

(in thousands of Canadian dollars)

7. Property and Equipment (including ROU Assets)

Cost:

	Furniture and equipment	Computers	Leasehold improvements	Right-of-use assets	Total
	$	$	$	$	$
Balance at January 1, 2020	**1,746**	**304**	**2,137**	**10,678**	**14,865**
Acquisitions	**141**	**98**	**-**	**2,931**	**3,170**
Disposals	**284**	**41**	**-**	**4,306**	**4,631**
Balance at December 31, 2020	**1,603**	**361**	**2,137**	**9,303**	**13,404**
Balance at January 1, 2019	1,743	218	2,125	-	4,086
Acquisitions	13	221	12	10,678	10,924
Disposals	10	135	-	-	145
Balance at December 31, 2019	1,746	304	2,137	10,678	14,865

Accumulated depreciation:

	Furniture and equipment	Computers	Leasehold improvements	Right-of-use assets	Total
	$	$	$	$	$
Balance at January 1, 2020	**1,545**	**87**	**1,857**	**1,035**	**4,524**
Depreciation for the year	**46**	**65**	**174**	**1,253**	**1,538**
Disposals / Adjustments	**227**	**(53)**	**-**	**331**	**505**
Balance at December 31, 2020	**1,364**	**205**	**2,031**	**1,957**	**5,557**
Balance at January 1, 2019	1,504	172	1,683	-	3,359
Depreciation for the year	48	46	174	1,035	1,303
Disposals	7	131	-	-	138
Balance at December 31, 2019	1,545	87	1,857	1,035	4,524

Carrying amounts:

	Furniture and equipment	Computers	Leasehold improvements	Right-of-use assets	Total
	$	$	$	$	$
Balance at December 31, 2020	**239**	**156**	**106**	**7,346**	**7,847**
Balance at December 31, 2019	201	217	280	9,643	10,341

(in thousands of Canadian dollars)

7. Property and Equipment (including ROU Assets) (continued)

Right of Use assets

Cost:	Premises	Equipment	Vehicle	Total
	$	$	$	$
Balance at January 1, 2020	**10,462**	**187**	**29**	**10,678**
Acquisitions	**2,887**	**-**	**44**	**2,931**
Disposals	**4,278**	**-**	**29**	**4,306**
Balance at December 31, 2020	**9,071**	**187**	**44**	**9,303**
Balance at January 1, 2019	-	-	-	-
Adoption of IFRS 16	10,462	187	29	10,678
Disposals	-	-	-	-
Balance at December 31, 2019	10,462	187	29	10,678

Accumulated depreciation:	Premises	Equipment	Vehicle	Total
	$	$	$	$
Balance at January 1, 2020	**984**	**37**	**14**	**1,035**
Depreciation for the year	**1,198**	**42**	**12**	**1,252**
Disposals	**330**	**-**	**-**	**330**
Balance at December 31, 2020	**1,852**	**79**	**26**	**1,957**
Balance at January 1, 2019	-	-	-	-
Depreciation for the year	984	37	14	1,035
Disposals	-	-	-	-
Balance at December 31, 2019	984	37	14	1,035

Carrying amounts:	Premises	Equipment	Vehicle	Total
	$	$	$	$
Balance at December 31, 2020	**7,219**	**108**	**18**	**7,345**
Balance at December 31, 2019	9,478	150	15	9,643

The Bank leases office premises, equipment and vehicles. The lease term on premises ranges from 1 to 10 years with most leases having an option to extend the lease at the end of the lease term. The lease term on equipment and vehicle ranges from 3 to 5 years with no renewal option.

(in thousands of Canadian dollars)

8. Intangible assets

Cost:

	Purchased software
	$
Balance at January 1, 2020	**1,208**
Acquisitions	**39**
Disposal	**216**
Balance at December 31, 2020	**1,031**
Balance at January 1, 2019	1,208
Acquisitions	-
Balance at December 31, 2019	1,208

Accumulated depreciation:

	Purchased software
	$
Balance at January 1, 2020	**1,145**
Depreciation for the year	**15**
Disposal	**266**
Balance at December 31, 2020	**894**
Balance at January 1, 2019	1,119
Depreciation for the year	26
Balance at December 31, 2019	1,145

Carrying amounts:

	Purchased software
	$
Balance at December 31, 2020	**137**
Balance at December 31, 2019	63

(in thousands of Canadian dollars)

9. Other assets

	2020	2019
	$	$
Accrued interest receivable	**2,304**	2,425
Prepaid expenses	**2,430**	2,204
Income tax receivable	**1,060**	1,400
Other	**361**	921
	6,155	6,950

10. Deposits from banks

	2020	2019
	$	$
Current deposits from banks	**11,026**	2,824
Money market term deposits	**38,273**	71,349
	49,299	74,173

As at December 31, 2020, deposits from the parent bank and other related parties was $10,943 (2019 - $2,678).

11. Deposits from customers

Deposits are measured upon initial recognition at their fair value less directly attributable incremental transaction costs. Deposits are subsequently measured at amortized cost using the effective interest method.

	2020	2019
	$	$
Retail customers:		
Term deposits	**248,639**	254,310
Demand deposits	**182,563**	160,883
Corporate customers:		
Term deposits	**520,852**	472,865
Demand deposits	**51,826**	38,574
	1,003,880	926,632

At December 31, 2020, $228,901 (2019 - $273,496) of deposits from customers are expected to be settled more than 12 months after the reporting date. Total deposits include $116,359 (2019 - $106,219) denominated in foreign currencies, which are principally U.S. dollar-denominated.

(in thousands of Canadian dollars)

12. Other liabilities

	2020	2019
	$	$
Accrued interest payable	12,482	12,439
Lease obligation	7,753	9,813
Loans funding obligation	-	7,156
Cheques and other items in transit	5,033	2,340
Accounts payable	1,778	1,776
Deferred income	40	63
Allowance for off-balance sheet commitments	2	2
	27,088	33,589

As at December 31, 2020, the details relating to the Bank's lease obligation which is included with Other liabilities is as follows:

Lease Liabilities	2020	2019
	$	$
Analysed as:		
Amounts due within 12 months	851	884
Amounts due after 12 months	6,902	8,929
Balance at December 31, 2020	7,753	9,813

As at December 31, 2020, the maturity of the lease obligation, on an undiscounted basis, is as follows:

Maturity Analysis	2020	2019
	$	$
Year 1	1,080	1,082
Year 2	726	1,070
Year 3	733	1,047
Year 4	656	1,092
Year 5	597	989
Onwards	5,670	5,626
Total undiscounted lease obligation	9,463	10,906

During the year ended December 31, 2020, the interest expense on lease obligations was $286 which is presented as part of Interest expense: Deposit and others in the Statement of comprehensive income and the total outflow for leases was $1,244. As at December 31, 2020, the Bank does not have any significant liquidity risk with regards to its lease obligations, which are monitored regularly within the Bank's Operations function.

(in thousands of Canadian dollars)

13. Income taxes

a) Income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in the statement of comprehensive income, except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

The Bank's income taxes for the year ended December 31 are summarized below:

i) Income tax recognized in the statement of comprehensive income

	2020	2019
	$	$
Current tax:		
In respect of the current year	**1,833**	2,824
Current tax reclassified to other comprehensive income	**(30)**	(178)
Deferred tax:		
Origination and reversal of temporary differences	**(617)**	44
	1,186	2,690

ii) Income tax recognized in other comprehensive income

	2020	2019
	$	$
Current tax:		
Fair value remeasurement of available-for-sale financial assets	**43**	148
Current tax reclassified to comprehensive income	**(13)**	30
	30	178

(in thousands of Canadian dollars)

13. Income taxes (continued)

b) i) Significant components of the Bank's deferred tax assets/(liabilities) as at December 31 are:

			2020			2019
	Assets	**Liabilities**	**Net**	Assets	Liabilities	Net
	$	**$**	**$**	$	$	$
Property and equipment	**82**	**-**	**82**	35	7	28
Intangible assets	**-**	**26**	**(26)**	-	17	(17)
Allowances for loan losses	**1,438**	**-**	**1,438**	842	-	842
Net unearned fees	**632**	**328**	**304**	685	357	328
Net tax assets/(liabilities)	**2,152**	**354**	**1,798**	1,562	381	1,181

b) ii) The following is the analysis of deferred assets/(liabilities) presented in the statement of financial position:

2020	**Opening balance**	**Recognised in profit or loss**	**Closing balance**
	$	$	$
Property and equipment	**28**	**54**	**82**
Intangible assets	**(17)**	**(9)**	**(26)**
Allowances for loan losses	**842**	**596**	**1,438**
Net unearned income	**328**	**(24)**	**304**
	1,181	**617**	**1,798**

2019	Opening balance	Recognised in profit or loss	Closing balance
	$	$	$
Property and equipment	(10)	38	28
Intangible assets	(24)	7	(17)
Allowances for loan losses	775	67	842
Net unearned income	484	(156)	328
	1,225	(44)	1,181

(in thousands of Canadian dollars)

13. Income taxes (continued)

c) Total income tax expense differs from the amounts computed by applying the combined statutory federal and provincial tax rate of 26.55% (2019 - 26.56%) to pre-tax income as a result of the following:

	2020	2019
	$	$
Net income before income taxes	**4,183**	10,150
Income taxes at statutory tax rate	**1,111**	2,696
Increase in income taxes resulting from:		
Non-deductible items	**2**	2
Other	**73**	(8)
Income taxes	**1,186**	2,690
Effective tax rate	**28.35%**	26.50%

14. Other income

	2020	2019
	$	$
Loan fees	**1,839**	2,305
Foreign exchange gain	**844**	881
Other	**643**	618
Remittances	**352**	465
Net gains on sale of available-for-sale corporate bonds	**226**	194
Commission on SGIC	**192**	108
Guarantees	**154**	190
Collection charges	**116**	139
Account service fee	**97**	46
RESP Referral commission	**87**	-
Letters of credit	**39**	46
Interest rate contracts	**-**	(100)
	4,589	4,892

(in thousands of Canadian dollars)

15. Other non-interest expenses

	2020	2019
	$	$
Insurance	**726**	1,958
Parent bank charges	**480**	480
Professional fees	**756**	468
Other	**341**	449
Communications	**370**	385
Brokerage and bank charges	**344**	304
Travelling	**156**	243
Directors' fees	**252**	150
Advertisement	**218**	143
Association and regulatory	**137**	135
Legal	**374**	125
Printing and stationery	**127**	90
	4,281	4,930

16. Subordinated debt

As at December 31, 2020, the Bank has subordinated debt, issued on December 31, 2010 which, in the event of the winding up of the Bank, is unsecured and subordinated to all of the Bank's deposits liabilities and all other liabilities, issued to its parent bank in the amount of $20,000 (2019 - $20,000). The subordinated debt is measured at amortized cost, using the effective interest method.

The subordinated debt bears interest at the rate of six months CDOR plus 1% per annum, payable semi-annually in arrears, until its maturity date of December 31, 2025. At the Bank's option, the subordinated debt may be redeemed or purchased by the Bank, with the prior written approval of OSFI to such redemption or purchase, on or after December 31, 2020.

On February 23, 2013, the Bank in discussions with OSFI and its parent bank amended certain terms of the subordinated debt instrument to comply with the requirements of Basel III and the guidance issued by OSFI whereby, under certain triggering events, the amount outstanding under the subordinated debt together with accrued and unpaid interest will automatically be converted into newly issued and fully paid common shares of the Bank.

17. Common share capital

Authorized:

An unlimited number of common shares at par value of $100

Issued and fully paid up:

		2020		2019
	Number	**Amount**	Number	Amount
		$		$
Balance, beginning of year	**470,090**	**117,784**	470,090	117,784
Balance, end of year	**470,090**	**117,784**	470,090	117,784

(in thousands of Canadian dollars)

18. Capital management

Capital levels for Canadian banks are regulated pursuant to guidelines issued by OSFI. Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Total capital is defined as the total of Tier 1 and Tier 2 capital less deductions as prescribed by OSFI.

As at December 31, the Bank is in compliance with the requirements for assets to capital multiple and risk-based Tier 1 and capital ratios.

	Basel III as at December 31, 2020	Basel III as at December 31, 2019
	$	$
Regulatory capital and capital ratios:		
Common Equity Tier 1 capital:		
Common shares	**117,784**	117,784
Contributed surplus	**5,934**	5,934
Retained earnings	**35,705**	32,708
Accumulated other comprehensive income / (loss)	**90**	49
Common Equity Tier 1 capital before regulatory adjustments	**159,513**	156,475
Total regulatory adjustments to Common Equity Tier 1	**(120)**	(46)
Total Tier 1 capital	**159,393**	156,429
Tier 2 capital:		
Subordinated debt	**20,000**	20,000
Total regulatory capital	**179,393**	176,429
Capital ratios:		
Tier 1 capital	**14.03%**	13.97%
Total capital	**16.14%**	16.03%

Capital ratios are calculated by dividing Tier 1 and Total capital by risk-weighted assets ("RWA"). The calculation of RWA is determined by OSFI prescribed rules relating to on-balance sheet and off-balance sheet exposures and includes an amount for the market risk exposure associated with the Bank's derivative portfolio.

In addition to the Tier 1 and Total capital ratios, Canadian banks are required to ensure that their leverage ratio, which is calculated by dividing capital measure (Tier 1 capital) by exposure measure (the sum of on-balance sheet items and specified off-balance sheet items, net of specified adjustments), meets or exceeds a minimum level prescribed by OSFI. Capital measure and exposure measure are defined in OSFI's Leverage Requirements guideline. An analysis of leverage ratio is as follows:

	2020	2019
	$	$
On-balance sheet items and specified off-balance sheet items, net of specified adjustments	**1,296,938**	1,249,497
Leverage Ratio	**12.38%**	12.52%

(in thousands of Canadian dollars)

19. Derivatives

In the ordinary course of business, the Bank uses derivative financial instruments, primarily over-the-counter foreign exchange contracts and interest rate contracts to manage its exposure to currency and interest rate fluctuations, as part of the Bank's asset liability management program.

The Bank economically hedges exposure on its assets and liabilities by entering into foreign exchange contracts and interest rate contacts. These derivatives are not designated for hedge accounting and are carried at fair value, with changes in fair value being recorded in other income.

Notional amounts of derivative contracts serve as reference for calculating payments and are a common measure of business volume. The following is a summary of the notional amounts, by remaining term to maturity, of the Bank's derivative positions at the statement of financial position date:

				2020	2019
	Within 1 year	**1 to 5 years**	**Over 5 years**	**Total**	Total
	$	**$**	**$**	**$**	$
Foreign exchange contracts	**249,327**	**-**	**-**	**249,327**	224,037
Interest rate contracts	**7,000**	**-**	**-**	**7,000**	18,486
	256,327	**-**	**-**	**256,327**	242,523

The following is a summary of the fair value of the Bank's derivative portfolio at the statement of financial position date classified by positive and negative fair values:

			2020			2019
	Positive fair value	**Negative fair value**	**Net fair value**	Positive fair value	Negative fair value	Net fair Value
	$	**$**	**$**	$	$	$
Foreign exchange contracts	**5,602**	**(8)**	**5,594**	3,954	(2)	3,952
Interest rate contracts	**-**	**(59)**	**(59)**	12	(67)	(55)
	5,602	**(67)**	**5,535**	3,966	(69)	3,897
Variation Margin	**(702)**	**-**	**(702)**	(1,725)	-	(1,725)
	4,900	**(67)**	**4,833**	2,241	(69)	2,172

To reduce adverse liquidity shocks and in order to effectively mitigate counterparty credit risk, variation margin is calculated and exchanged for non-centrally cleared derivatives subject to a single, legally enforceable netting agreement.

(in thousands of Canadian dollars)

19. Derivatives (continued)

Current Replacement Cost is the fair value of the outstanding derivative financial instruments net of collateral, which represent the Bank's derivative credit exposure.

Credit equivalent amount is the current replacement cost for favourable contracts plus an amount for the future credit exposure associated with the potential future changes in currency rates for the contracts. Future credit exposure is calculated using a formula prescribed by OSFI.

Risk-weighted amount represents the credit equivalent amount weighted according to the creditworthiness of the counterparty, using factors prescribed by OSFI.

The following is a summary of the Bank's derivative positions and related credit exposures as at December 31:

			2020			2019
	Current replacement cost	**Credit equivalent amount**	**Risk-weighted amount**	Current replacement cost	Credit equivalent amount	Risk-weighted amount
	$	**$**	**$**	$	$	$
Canada						
Foreign exchange contracts	**5,163**	**12,288**	**2,458**	1,601	5,194	1,039
Interest rate contracts	**-**	**6**	**1**	2	33	7
Other Countries						
Foreign exchange contracts	**319**	**535**	**107**	626	2,441	488
Interest rate contracts	**-**			-	37	37
	5,482	**12,830**	**2,566**	2,230	7,704	1,570

20. Related party transactions and balances

The Bank is a wholly-owned subsidiary of State Bank of India (the "parent bank") which is incorporated under the *State Bank of India Act*, 1955, and has its registered office in Mumbai, India. The bank and the parent bank are part of the group that prepares publicly available consolidated financial statements every year.

a) *Parent and its related parties*

The Bank enters into transactions with its parent bank and entities under common control by the parent bank in the normal course of business and on commercial terms which are recorded by the Bank at the exchange amount, being the amount of consideration established and agreed to among the related parties.

(in thousands of Canadian dollars)

20. Related party transactions and balances (continued)

a) Parent and its related parties (continued)

During the year ended December 31, the balances and transactions with the parent bank and entities under common control by the parent bank are as follows:

	2020	2019
	$	$
Assets:		
Deposits with banks	**1,731**	1,311
Liabilities:		
Deposits from banks	**49,215**	74,026
Derivative liabilities	**-**	57
Other liabilities	**360**	452
Subordinated debt	**20,000**	20,000
Statement of comprehensive income		
Interest income	**1**	19
Interest expenses	**1,830**	1,818
Other income	**9**	22
Non-interest expenses	**561**	564
Derivatives		
Foreign exchange contracts	**-**	-

b) Central Government of India related entities

The Bank enters into transactions with other entities under common control by The Central Government of India, which controls a number of government entities, including the Bank's parent bank. These transactions are entered into in the normal course of business and on commercial terms which are recorded by the Bank at the exchange amount, being the amount of consideration established and agreed to among the related parties.

During the year ended December 31, the balances and transactions with the Central Government of India related entities are as follows:

	2020	2019
	$	$
Liabilities:		
Deposits from customers	**5,431**	7,557
Statement of comprehensive income		
Interest income	**-**	-
Interest expenses	**90**	60

(in thousands of Canadian dollars)

20. Related party transactions and balances (continued)

c) Key management personnel

Key management personnel ("KMP") are those persons who have authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The definition of KMP in IAS 24, *Related Party Disclosures*, specifies a role and is not limited to a person. KMP include directors (both executive and non-executive) and other members of the management team with significant authority and responsibility for planning, directing and controlling the Bank's activities. The Bank pays no post-employment benefits to KMP.

The following table summarizes the compensation paid to the KMP during the year ended December 31:

	2020	2019
	$	$
Short-term benefits	**1,820**	1,998

As at December 31, 2020, the loan balance outstanding from KMP is $1,921 (2019 - $1,979) at rates of interest ranging from 1.64% to 1.99% (2019 – 2.19% - 3.13%).

21. Geographic information

An analysis of the Bank's aggregate outstanding cash and cash equivalents, securities, loans and other assets, by geography, on the basis of the location of ultimate risk is as follows:

a) Assets

	2020	2019
	$	$
Canada	**1,114,131**	1,048,632
United States	**143,906**	149,313
India	**1,731**	10,550
Other countries	**79**	2,443
	1,259,847	1,210,938

b) Interest income:

An analysis of the total interest income on the basis of location is as follows:

	2020	2019
	$	$
Canada	**31,896**	33,422
United States	**6,024**	7,549
India	**201**	630
Other countries	**-**	2
	38,121	41,603

(in thousands of Canadian dollars)

22. Fair values of financial instruments

Fair value measurements of financial assets and liabilities are classified using fair value hierarchy that has the following levels:

- Level 1 - quoted prices in active markets for identical assets and liabilities;
- Level 2 - inputs other than quoted prices that are observable for the asset or liability; and
- Level 3 - inputs that are not based on observable market data.

The fair value measurements are categorized in their entirety as determined on the basis of the lowest level input that is significant to each fair value measurement.

Financial assets, consisting of securities as described in Note 4, and trading financial assets and liabilities, namely the derivatives, are all categorized as Level 2 in the fair value hierarchy. Indicative market prices from Bloomberg / Reuters are used for valuing the bonds. Indicative FX swap points and market yield curves from Bloomberg / Reuters are used for valuing the derivative contracts (FX swap and IRS). There was no transfer of financial assets or liabilities between fair value hierarchy during the year.

An analysis of the classification of the Bank's financial instruments within the fair value hierarchy at December 31 is as follows:

2020	**Level 1**	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial assets:				
Securities				
Financial assets at fair value through OCI	-	**27,185**	-	**27,185**
Debt securities at amortized cost	-	-	-	-
Derivatives				-
Foreign exchange contracts	-	**5,602**	-	**5,602**
Interest rate contracts	-	-	-	-
	-	**32,787**	-	**32,787**
Financial liabilities				
Derivatives				
Foreign exchange contracts	-	**8**	-	**8**
Interest rate contracts		**59**	-	**59**
	-	**67**	-	**67**

2019	Level 1	Level 2	Level 3	Total
	$	$	$	$
Financial assets:				
Securities				
AFS securities	-	66,400	-	66,400
HTM securities	-	-	-	-
Derivatives				
Foreign exchange contracts	-	3,954	-	3,954
Interest rate contracts	-	12	-	12
	-	70,366	-	70,366
Financial liabilities				
Derivatives				
Foreign exchange contracts	-	2	-	2
Interest rate contracts		67	-	67
	-	69	-	69

(in thousands of Canadian dollars)

22. Fair values of financial instruments (continued)

The carrying values and fair values of financial instruments are as follows:

	2020			2019		
	Carrying value	**Fair value**	**Fair value over carrying value**	Carrying value	Fair value	Fair value over carrying value
	$	**$**	**$**	$	$	$
Assets						
Cash and bank balances	**129,792**	**129,792**	**-**	61,142	61,142	-
Investment securities	**27,185**	**27,185**	**-**	66,400	66,400	-
Loans and advances to customers	**1,082,033**	**1,091,947**	**9,914**	1,062,620	1,062,301	(319)
Other assets	**12,853**	**12,853**	**-**	10,372	10,372	-
	1,251,863	**1,261,777**	**9,914**	1,200,534	1,200,215	(319)
Liabilities						
Deposits from banks	**49,299**	**49,299**	**-**	74,173	74,173	-
Deposits from customers	**1,003,880**	**1,013,083**	**9,203**	926,632	930,854	4,222
Other liabilities	**27,155**	**29,289**	**2,134**	33,658	33,732	74
Subordinated debt	**20,000**	**20,000**	**-**	20,000	20,000	-
	1,100,334	**1,111,671**	**11,337**	1,054,463	1,058,759	4,296

Due to their short-term nature, the carrying values of certain financial instruments are assumed to approximate their fair values. These financial instruments include cash resources, other assets and other liabilities.

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

(a) For floating rate loans, fair value is assumed to be equal to book value as the interest rates on these loans automatically reprice to market.

(b) For all other loans, fair value is determined by discounting the expected future cash flows of the loans at market rates for loans with similar terms and credit risks.

The fair values of demand deposits are assumed to be equal to their carrying values. The estimated fair values of fixed rate deposits payable on a fixed date are determined by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and risks.

The fair value of subordinated debt approximates carrying value as the interest rate automatically reprices to market.

(in thousands of Canadian dollars)

23. Commitments and contingencies

Letters of credit commitments

In the normal course of its business, the Bank issues various unfunded credit-related facilities, including letters of credit and commitments, to extend credit on behalf of its customers. These amounts, which are not included in the statement of financial position, are as follows:

	2020	2019
	$	$
Commitments to extend credit	**97,844**	68,609
	97,844	68,609

Litigation

The Bank is involved in matters involving litigation arising out of the ordinary course and conduct of its business. Management assesses such claims and where considered likely to result in a material exposure and, where the amount of the claim is quantifiable, provisions for loss are made based on management's assessment of the likely outcome. The Bank does not provide for claims that are considered unlikely to result in a significant loss, claims for which the outcome is not determinable or claims where the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provided for when reasonably determinable. As at December 31, 2020 and 2019, management considers that the aggregate liability resulting from such litigation and other matters is not material to the Bank’s financial position or results of operations.

24. Guarantees

As at December 31, the guarantees issued and outstanding are as follows:

	2020	2019
	$	$
Maximum potential future payment:		
Bank Guarantee	**9,573**	11,819

As many of these guarantees will expire or terminate without being drawn upon and do not take into consideration the possibility of recovery by means of recourse provisions or from collateral held or pledged, the contractual amounts are not indicative of future cash requirements or credit risk and may not bear any relationship to the Bank's expected losses from these arrangements.

(in thousands of Canadian dollars)

25. Interest rate risk profile

An analysis of the Bank's interest rate risk by the contractual repricing or maturity dates, whichever is earlier, as at December 31, 2020, is as follows:

	Floating rate	3 months or less	3months to 1 year	1 to 5 years	Over 5 years	Non-rate sensitive	Total
	$	**$**	**$**	**$**	**$**	**$**	**$**
Assets							
Cash and bank balances	-	65,390	50,000	-	-	14,402	129,792
Investment securities	-	-	12,255	14,930	-	-	27,185
Loans and advances to customers	52,926	485,692	214,583	334,307	-	-	1,087,508
Allowance for credit losses	-	-	-	-	-	(5,475)	(5,475)
Other assets	-	-	-	-	-	20,837	20,837
	52,926	551,082	276,838	349,237	-	29,764	1,259,847
Liabilities and Shareholder's Equity							
Deposits from banks	-	6,379	31,894	-	-	11,026	49,299
Deposits from customers	215,144	111,894	428,660	228,888	-	19,294	1,003,880
Other liabilities	-	-	-	-	-	27,155	27,155
Subordinated debt	-	-	20,000	-	-	-	20,000
Shareholder's equity	-	-	-	-	-	159,513	159,513
	215,144	118,273	480,554	228,888	-	216,988	1,259,847
Excess (deficiency) of assets over liabilities and shareholder's equity	(162,218)	432,809	(203,716)	120,349	-	(187,224)	-
Off-balance sheet position							
Swap assets	-	-	-	-	-	-	-
Swap liabilities	-	7,000	(7,000)	-	-	-	-
Off-balance sheet gap	-	7,000	(7,000)	-	-	-	-
Total gap	(162,218)	439,809	(210,716)	120,349	-	(187,224)	-

26. Risk management framework

As a financial intermediary, the Bank is exposed to various types of risks. The Bank has an Enterprise Risk Management ("ERM") framework, embedded in which is the Operational Risk Management ("ORM") framework, that consists of:

- A formal risk governance structure;
- Risk Policies and procedures;
- Risk appetite and limit structure;
- Risk assessment tools;
- A common taxonomy of risk terms;
- New product and initiatives process;
- Reporting of enterprise wide risks;
- Independent review and assessment of risks; and
- Training

The Bank's ERM framework ensures that effective processes are in place for:

- Identifying current and emerging risks;
- Developing risk assessment and measurement systems
- Establishing policies, practices and other control mechanisms to manage risks;
- Developing risk tolerances limits for approval by the Risk Management Committee of the Board ("RMCB") and the Board of Directors;
- Continual evaluation of risk appetite and tolerance, managed through setting risk limits and monitoring of utilization limits;
- Identifying corrective action plans where needed; and
- Integrated reporting of enterprise risk monitoring to Senior Management, the RMCB and the Board of Directors

The guiding principles behind the risk management practices at the Bank include:

- Establishing a "strong tone at the top";
- Defining the risk appetite;
- Risk assessment and measurement, including scenario and stress consideration;
- Integrating risk management into organizational decision making at all levels and optimizing the risk-reward balance in all decision making; and
- Portfolio diversification

26. Risk management framework (continued)

The Bank has adopted the three lines of defence model for risk management. The branches, Credit Processing Cells, and other departments at Corporate Office not specifically identified as the second or third lines of defence, constitute the first line of defence in the management of risks pertaining to their area of operations. The first line is responsible for the day to day risk management and control. The Chief Risk Officer and the Chief Compliance Officer are the second line of defence. The Internal Auditor is the third line of defence and provides independent assurance.

The key risks that the Bank is primarily exposed to include credit, market (including interest rate risk, foreign exchange risk and liquidity risk) and operational risk. The approach of management to handle the key risks facing the Bank is outlined below:

a) Credit risk

Credit risk is the risk that unexpected losses may arise as a result of the Bank's borrowers or market counterparties failing to meet their obligations to pay. The Bank's Credit Risk Management Policy ("CRMP"), and the Residential Mortgage Underwriting Policy (" RMUP") which are approved by its Board of Directors / Risk Management Committee of the Board, describe the principles that underlie and drive the Bank's approach to credit risk management. The CRMP / RMUP aim to optimize the Bank's risk-adjusted rate of return whilst maintaining / the Bank's credit risk exposures within limits and parameters, as approved by the Board of Directors of the Bank.

The Bank takes a three-tier approach to assessment of credit risk – the transaction being proposed by a business unit (first tier), an independent challenge by the risk department (second tier) and assessment and adjudication of the same by an appropriate authority / independent credit committee (third tier). The CRMP / RMUP lay down a structured and standardized credit approval process, which includes a well-established procedure of independent and comprehensive credit risk assessment and the assignment of an internal risk rating to the borrower. The risk rating is a critical input for the credit approval process and is also an input in arriving at the credit risk spread and level of credit allowance for the proposal.

The approval process is delegated to various officials and committees as per the guidelines approved by the Board of Directors. Credit proposals are approved by these officials and committees based on, among other things, the amount and internal risk rating of the facility. There is a Corporate Credit Committee (the "CCC") which recommends all proposals that are beyond its powers for consideration of the Risk Management Committee of the Board/Board of Directors.

Monitoring credits, whilst ongoing, can also be triggered by any material credit event coming to the Bank's notice through either primary or secondary sources. All commercial and corporate borrower accounts are reviewed at least on an annual basis.

Credit risk is also managed at the portfolio level by monitoring and reporting to the Risk Management Committee of the Board and the Board of Directors the key parameters of risk concentration; namely, product specific exposures, large exposures, industry / sectoral exposures and country/geographical exposures.

As at December 31, 2020, the Bank’s exposure to credit risk is described in Notes 3b) and 5a) on the gross loans outstanding and in Note 22 on the fair value of financial instruments.

26. Risk management framework (continued)

b) *Market risk*

Market risk is the uncertainty of earnings faced by the Bank as a result of volatility in market factors (i.e., interest rates, exchange rates, asset prices, etc.). The policies approved by the Board of Directors for addressing market risk are the Securities and Investment Policy and Enterprise Risk Management Policy. The Asset Liability Management Committee ("ALCO") considers various investment and treasury operations matters, including the implementation of risk mitigation measures. Furthermore, an independent Treasury Back Office is set up to monitor and report the various risk limits.

The key risks to which the Bank is exposed from a market risk perspective relate to:

i) Interest rate risk:

Interest rate risk is defined as the exposure of a bank's financial condition to adverse movements in interest rates. Earnings from interest-sensitive investments and the overall value of the investment portfolio will be impacted by changes in interest rates. The Enterprise Risk Management Policy currently sets out the measurement process to include the use of repricing gap reports and estimation of the sensitivity of the Bank's net interest income to a 200-basis-point adverse change in the level of interest rates. The adverse impact of a 200-basis-point parallel shift in interest rates shall not exceed 5% of the Bank's net capital funds as at the end of the previous year. As at December 31, 2020, the impact of a 200-basis-point parallel shift in interest would have a $4.54 million impact on net income. The Bank uses interest rate contracts, as appropriate, to manage its exposure to interest rate fluctuations as described in Note 19 and the Bank’s interest rate risk is presented in Note 25.

ii) Foreign exchange risk:

The risk arises due to positions in non-Canadian dollar-denominated assets and liabilities in those currencies. The risk originates as a result of the impact on revenue due to the potential revaluation of non-Canadian dollar assets and liabilities. The aggregate net overnight open exchange position across all foreign currencies as per Risk Appetite Statement shall not exceed U.S. $6 million. The Bank uses foreign exchange contracts, as appropriate, to manage its exposure to currency fluctuations as described in Note 19. The Bank’s main exposure to foreign exchange risk, primarily US dollars, is described in Notes 4, 5 and 11. As at December 31, 2020, the impact of a 10 percent change in the Canadian dollar relative to the US dollar would have a $176 (December 31, 2019 - $171) impact on net income before income taxes.

iii) Liquidity risk:

Liquidity risk relates to the potential difficulty in accessing financial markets in order to meet payment obligations. It includes both the risk of unexpected increase in the cost of funding the assets and the risk of being unable to liquidate investments in a timely manner at a reasonable price. Treasury ensures that adequate liquidity is maintained at all times through systematic funds planning and maintenance of liquid investments. In addition, liquidity stress testing analysis is regularly performed to assess the Bank's ability to withstand an extreme crisis situation.

26. Risk management framework (continued)

Treasury is responsible for managing the market risk of treasury positions and the day- to-day liquidity of the Bank. It is subject to periodic review by Risk Department / Internal Audit, Senior management also regularly monitors the positions taken. The ALCO and the RMCB undertake a periodic review of the market risk and liquidity position of the Bank.

c) *Operational risk:*

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events.

The Bank has developed and implemented an Operational Risk Management framework which is embedded in the Enterprise Risk Management Policy. The Operational Risk Management framework covers the aspects pertaining to minimizing losses due to process failures, losses due to fraud, impact of failures in technology/systems and continuity in the Bank's operations.

The Risk Management Committee ("RMC"), comprising senior management, is responsible for the development, implementation, maintenance and review of the Operational Risk Management framework. The Bank has implemented operational risk management tools such as Risk and Control Self Assessments, Business Process Mapping, Loss Data monitoring, etc to identify and ensure effective control of its operational risks.

To identify operational risks in new products/processes, all such proposals are examined by the Bank Management Committee, comprising senior management, after obtaining inputs from all the relevant groups and control functions in the Bank.

The Bank has in place an Enterprise Culture and Conduct Framework.

The Bank has developed and implemented a Business Continuity Plan ("BCP"). This plan is designed to facilitate continuity in critical business operations in the event of a disaster or an emergency situation. The BCP has been formulated on the basis of a business impact analysis carried out for the individual groups involving identification of critical activities and determination of their recovery time objectives.

The Bank has developed and implemented an Outsourcing Policy to mitigate outsourcing risks and ensure the application of a standardized approach for all outsourcing arrangements entered into by the Bank. All proposed outsourcing arrangements are assessed for their criticality prior to outsourcing, and the proposal is approved by the Board of Directors.

The Bank has an Information Systems Security Policy that sets the guiding principles to achieve confidentiality, integrity and availability of information and information systems used by the users.

Group risk management framework:

The Bank is subject to the group risk management framework, which has been developed by the parent bank, in order to identify, evaluate and manage key risks on a group-wide basis. The framework is applicable to all overseas bank entities, including the subsidiaries, of the parent.

27. Impact of COVID-19

The outbreak of the COVID-19 was officially pronounced a pandemic by the World Health Organization on March 11, 2020. The pandemic affected the global economy adversely in many significant ways. Governments imposed various restrictions to curb the spread of the virus. There were travel restrictions, social distancing protocols, stay at home orders, business shutdowns, etc. The restraints on activities affected businesses significantly. Preliminary estimates show that the Canadian economy contracted by 5.1% in 2020.

Despite being in unfamiliar territory, as was the case with the banking industry and various sectors of the economy, SBI Canada Bank responded to the COVID situation with alacrity. Qualifying customers were offered payment deferrals. The bank waived fees on accounts opened online and on remittances, to assist existing customers and to attract new customers. In view of the reduced traffic at branches, focus was placed on Online Account Opening. A Social Media & Digital Marketing campaign to promote Online Accounts was launched. There was no disruption in branch operations or in the operations of alternate channels. Customers were encouraged to adopt the Internet Banking/ Mobile Banking platforms to conduct banking transactions from their homes. Branches were asked to increase the frequency of communication with existing customers over phone. Work from home arrangements were introduced and nearly 70% of the Head Office employees were working from remote locations. The Human Resources department provided guidance and regular updates on social distancing norms, general do's and don'ts, etc.

The bank also regularly reviewed the industry trends and proactively changed the risk ratings of accounts that were in affected sectors, as warranted. As was the case with the banking industry at large, the pandemic had an adverse effect on our earnings. The roll out of the vaccine programs across the globe is expected to bring about a rebound in global economies.