Financial statements of

SBI Canada Bank

December 31, 2018

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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, 2018, and the statements of comprehensive income, changes in equity and 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, 2018, 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.

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.

[to be signed Deloitte LLP]

Chartered Professional Accountants
Licensed Public Accountants
February ●, 2019

SBI Canada Bank

Statement of financial position
as at December 31, 2018

(In thousands of Canadian dollars)

	Note	2018	2017
		$	$
Assets			
Cash and bank balances:			
Notes and coins		**842**	709
Deposits with banks:			
Interest bearing		**33,290**	34,060
Non-interest bearing		**13,107**	2,498
		47,239	37,267
Investment securities	4	**71,925**	85,593
Loans and advances to customers	5(a)	**974,627**	876,803
Derivative assets	19	**77**	2,278
Property and equipment	7	**727**	908
Intangible assets	8	**89**	125
Deferred tax assets	13	**1,225**	1,561
Other assets	9	**5,003**	4,163
Total assets		**1,100,912**	1,008,698
Liabilities			
Deposits from banks	10	**53,466**	48,968
Deposits from customers	11	**858,835**	786,460
Derivative liabilities	19	**1,356**	57
Other liabilities	12	**18,115**	16,107
Subordinated debt	16	**20,000**	20,000
		951,772	871,592
Shareholder's equity			
Common share capital	17	**117,784**	117,784
Contributed surplus		**5,934**	5,934
Retained earnings		**25,875**	13,866
Accumulated other comprehensive loss		**(453)**	(478)
		149,140	137,106
Total liabilities and shareholder's equity		**1,100,912**	1,008,698

Approved by the Board of Directors

_________________________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, 2018

(In thousands of Canadian dollars)

	Note	**2018**	2017
		$	$
Interest income:			
Loans		**33,685**	27,720
Deposits		**877**	591
Securities		**2,234**	2,884
		36,796	31,195
Interest expense:			
Deposits		**15,419**	12,279
Subordinated debt		**568**	437
		15,987	12,716
Net interest income		**20,809**	18,479
Other income	14	**5,217**	5,234
Total revenue		**26,026**	23,713
Net impairment (recovery) loss on loans and advances	27	**(4,520)**	4,315
Non-interest expenses:			
Personnel		**6,314**	6,071
Premises and equipment		**2,896**	3,067
Depreciation and amortization		**246**	296
Other	15	**3,800**	3,832
		13,256	13,266
Net income before income taxes		**17,290**	6,132
Provision for income taxes	13	**4,745**	1,674
Net income for the year		**12,545**	4,458
Other comprehensive loss, net of income tax:			
Change in unrealized losses in available-for sale securities, net of income tax recovery of Nil (2017 - $41)		**-**	(113)
Change in unrealized losses in investment securities at fair value through other comprehensive income, net of income tax recovery of $10		**(21)**	-
Recovery of r credit losses in debt securities at fair value through other comprehensive income recognized in income		**46**	-
Total comprehensive income for the year		**12,570**	4,345

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

SBI Canada Bank

Statement of changes in equity
for the year ended December 31, 2018

(In thousands of Canadian dollars)

2018	**Common share capital**	**Contributed surplus**	**Accumulated other comprehensive Income (loss)**	**Retained earnings**	**Total**
	$	**$**	**$**	**$**	**$**
Balance as at January 1, 2018	**117,784**	**5,934**	**(478)**	**13,866**	**137,106**
Impact on adoption of IFRS 9	-	-	-	(536)	(536)
Adjusted balance at beginning of period	117,784	5,934	(478)	13,330	136,570
Comprehensive income:					
Net income for the year	-	-	-	12,545	12,545
Other comprehensive income, net of income tax expenses of $20:					
Net amount transferred to the statement of comprehensive Income	-	-	(2)	-	(2)
Net change in unrealized loss on available-for-sale securities	-	-	127	-	127
FVOCI securities	-	-	(100)	-	(100)
Total comprehensive Income	-	-	25	12,545	12,570
Balance as at December 31, 2018	**117,784**	**5,934**	**(453)**	**25,875**	**149,140**

2017	Common share capital	Contributed surplus	Accumulated other comprehensive Income (loss)	Retained earnings	Total
	$	$	$	$	$
Balance as at January 1, 2017	117,784	5,934	(365)	9,408	132,761
Comprehensive income:					
Net income for the year	-	-	-	4,458	4,458
Other comprehensive income, net of income tax expenses of $41:					
Net amount transferred to the statement of comprehensive Income	-	-	14	-	14
Net change in unrealized loss on available-for-sale securities	-	-	(127)	-	(127)
FVOCI securities	-	-	-	-	-
Total comprehensive Income	-	-	(113)	4,458	4,345
Balance as at December 31, 2017	117,784	5,934	(478)	13,866	137,106

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

SBI Canada Bank

Statement of cash flows
for the year ended December 31, 2018

(In thousands of Canadian dollars)

	2018	2017
	$	$
Operating activities		
Net income for the year	**12,545**	4,458
Adjustments for:		
(Recovery of) provision for credit losses	**(4,520)**	4,315
Net gain on sale of Investment securities	**(23)**	(182)
Depreciation and amortization	**246**	296
Loss on disposal of property and equipment	**23**	52
Net interest income	**(20,809)**	(18,479)
Income tax expense	**4,745**	1,674
Changes in:		
Net change in derivative financial instruments	**3,500**	(2,849)
Loans and advances to customers, net	**(93,993)**	(151,961)
Other assets	**(4,524)**	(2,343)
Deposits from banks, net	**4,498**	(33,235)
Deposits from customers, net	**72,375**	88,171
Other liabilities and provisions	**(1,115)**	4,060
Interest received	**36,091**	31,627
Interest paid	**(12,665)**	(11,254)
Cash (used in) operating activities	**(3,626)**	(85,650)
Investing activities		
Change in interest-bearing deposits	**762**	45,190
Proceeds from sale of investment securities	**28,780**	41,518
Purchase of investment securities	**(15,122)**	(8,100)
Purchase of property and equipment	**(52)**	(286)
Cash generated from investing activities	**14,368**	78,322
Net changes in cash and cash equivalents	**10,742**	(7,328)
Cash and cash equivalents, beginning of year	**3,207**	10,535
Cash and cash equivalents, end of year	**13,949**	3,207
Represented by:		
Cash and non-interest bearing bank balances	**13,949**	3,207
	13,949	3,207

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, 2018 were authorized for issue by the Bank's Board of Directors on February 27, 2019.

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.

(in thousands of Canadian dollars)

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 assets*

Accounting policy under IFRS 9 (Effective January 1, 2018)

Effective January 1, 2018, the Bank adopted IFRS 9 Financial Instruments, which superseded the IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") standard.

The following tables provide the impact of adopting IFRS 9 on the statement of financial position at January 1, 2018 for opening retained earnings, loans and securities and the related allowance for credit losses:

	(Thousands of Canadian dollars)
Opening retained earnings at January 1, 2018	13,866
Impact of adopting IFRS 9 adjustment	729
Deferred tax on IFRS 9 adjustment	(193)
	536
Adjusted opening retained earnings at January 1, 2018	**13,330**

(Thousands of Canadian dollars)	IAS 39			IFRS 9	
	Basis of measurement	**Carrying amount**	**IFRS 9 Re-measurement**	**Basis of measurement**	**Carrying amount**
Loans					
Loans and advances to customers	Loans and receivables	876,803	876,074	Amortized cost	876,074
- Mortgage lending		455,451	455,451		455,451
- Personal loans		21,101	21,101		21,101
- Syndication		406,753	406,753		406,753
- Other		9,223	9,223		9,223

(in thousands of Canadian dollars)

Allowance for loans and advances to customers		(15,725)	(16,454)		(16,454)
Securities					
Investment securities	Available for Sale	51,844	51,844	Amortized cost FVOCI	51,844 -
	Held-to-maturity	33,749	33,749	Amortized cost	33,749
Allowance for investment securities		-	-		-
- Measured at Amortized Cost		-	-		-
- Measured at FVOCI		-	-		-
Total		**962,396**	**961,667**		**961,667**

Classification and measurement

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 adoption of the new classification and measurement requirements resulted in the Bank's loans continuing to be measured at amortized cost and securities continue to be measured at either amortized cost or fair value with change in fair value recognized in other comprehensive income (FVOCI). Moreover, financial liabilities are further measured at amortized cost. All financial instruments that have been designated in FVTPL under IAS 39 have been measured at FVTPL under IFRS 9.

Accounting policy on equity securities, classification and valuation

The Bank has equity shares received from Bhushan Steel Limited (see Note 27) as part of the loan settlement which are being stated at FVOCI less any provision for impairment.

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 of the cash-generating unit 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.

(in thousands of Canadian dollars)

3. Significant accounting policies (continued)

Impairment

The impairment model for measuring impairment of financial assets changed from an incurred loss model to an expected credit loss ("ECL") model. The impact of adopting IFRS 9 impairment requirements resulted in an increase in the allowance for loan losses of $536 (net of taxes $193) at January 1, 2018. 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 some judgment involved in determining the ECL estimate, however, the model is relied upon to the greatest extent possible

Under IFRS 9, the allowance for financial assets for which credit risk had not increased significantly since initial recognition, is measured at an amount equal to 12 month ECL ("stage 1"). For financial assets that have experienced a significant increase in credit risk, the Bank recognizes an allowance at an amount equal to the lifetime ECL ("stage 2"). The determination of a significant increase in credit risk takes into account relative changes in risk of default and includes all financial assets that are more than 30 days past due.

The allowance for financial assets that are individually identified as impaired ("stage 3") is also measured at an amount equal to the lifetime ECL. 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.

The carrying value of the Bank's financial assets as at January 1, 2018 was as follows:

(Thousands of Canadian dollars)	Stage 1	Stage 2	Stage 3	**Total**
Carrying value-as at January 1, 2018	**904,000**	**45,000**	**13,000**	**962,000**
Loans and advances to customers	818,000	45,000	13,000	**876,000**
Investment securities	85,593	-	-	**85,593**

Hedge accounting

IFRS 9 introduces a new hedge accounting model that expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The Bank has not applied hedge accounting during the years ended December 31, 2018 and 2017.

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.

3. Significant accounting policies (continued)

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.

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 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.

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 judgement.

(in thousands of Canadian dollars)

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 under three scenarios (weightings in brackets): Pessimistic (30%), Base (50%) and Optimistic (20%).

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.

The following table sets out the Bank's credit risk exposure for all financial assets and loan commitments as at December 31, 2018. 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.

(Thousands of Canadian dollars)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial Assets				
A. SBIC 0 to 12	899,048.00	123,969.00	-	1,023,017.00
B. SBIC 13	-	10,017.45	-	10,017.45
C SBIC 14	-	16,365.00	-	16,365.00
D. Impaired	-	-	-	-
Gross Carrying Amount	**899,048.00**	**150,351.45**	**-**	**1,049,399.45**
Loss Allowance	1,425.09	1,490.96		2,916.05
Net Carrying Amount	**897,622.91**	**148,860.49**		**1,046,483.40**

(Thousands of Canadian dollars)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan commitments				
A. SBIC 0 to 12	88,797.00	7,418.00	-	96,215.00
B. SBIC 13	-	12,196.00	-	12,196.00
C SBIC 14	-	-	-	-
D. Impaired	-	-	-	-
Gross Carrying Amount	**88,797.00**	**19,614.00**	**-**	**108,411.00**
Loss Allowance				
Net Carrying Amount	**88,797.00**	**19,614.00**	**-**	**108,411.00**

3. Significant accounting policies (continued)

Modifications

From time to time the Bank modifies the contractual terms of a loan due to the poor financial condition of the borrower. In this case, the Bank assesses 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 we would not otherwise consider, the loan is classified as impaired. The Bank considers one or a combination of the following to be significant concessions: (1) a reduction 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. Renegotiated loans are permitted to remain in performing status if the modifications are not considered to be significant, or are returned to performing status when none of the criteria for classification as impaired continue to apply.

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL.

	December 31, 2018
Financial assets modified during the period	
Amortized cost before modification	Nil
Net modification loss	Nil
Financial assets modified since initial recognition	
Gross carrying amount at December 31, 2018 of financial assets for which loss allowance has changed to 12-month measured during the period	Nil

Accounting policy under IAS 39 (up to December 31, 2017)

Financial assets are classified into the following categories: Fair Value Through Profit or Loss ("FVTPL"), Available For Sale ("AFS"), Held-To-Maturity ("HTM"), and loans and receivables. Management determines the classification at initial recognition. All financial assets and liabilities are initially recognized or derecognized on a trade date basis.

(i) Trading account securities:

The Bank does not hold any securities which are FVTPL.

(ii) Available-for-sale securities

The Bank holds certain securities that have been designated as AFS and are recognized at fair value and transaction costs are added to the initial carrying value of the securities. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income. When an AFS security is sold, the cumulative gain or loss in other comprehensive income is transferred to the statement of comprehensive income.

3. Significant accounting policies (continued)

At each reporting date, the Bank assesses on an individual basis, whether there is objective evidence that one or more AFS securities are impaired. An AFS debt security is impaired when objective evidence demonstrates that a loss event has occurred after the security's initial recognition, and that the loss event has an impact on the future cash flows of the debt security that can be estimated reliably. Objective evidence of impairment can include significant financial difficulty of the borrower or issuer, default or delinquency by the borrower, restructuring of the security, indications that a borrower or issuer will enter bankruptcy, or the disappearance of an active market for a security.

Impairment losses on AFS debt securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to the statement of comprehensive income as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to the statement of comprehensive income is the difference between the acquisition costs, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in the statement of comprehensive income.

(iii) Held-to-maturity securities

The Bank holds certain securities that have been designated as HTM. HTM investment securities are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which do not meet the definition of a loan, are not held-for-trading, and are not designated at fair value through profit or loss or as available-for-sale.

After initial recognition, held-to-maturity investment securities are carried at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate. The amortization is included in interest income – securities in the statement of comprehensive income.

(iv) Loans and advances

Loans include loans and advances originated by the Bank which are not classified as either FVTPL or designated at fair value. Loans and advances are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and advances are measured at amortized cost using the effective interest method, less any impairment losses. Loans are stated net of unearned income and of an allowance for credit losses.

Loan 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 interest income over the appropriate lending or commitment period. Prepayment fees are recognized in interest 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.

(in thousands of Canadian dollars)

3. Significant accounting policies (continued)

Impairment of loans and allowance for credit losses:

Losses for impairment are recognized when there is objective evidence that impairment of a loan or a portfolio of loans has occurred as a result of a loss event and where the loss event has an impact on the estimated future cash flows of the loan or portfolio of loans. Impairment losses are recorded as charges to the statement of comprehensive income. The carrying amount of impaired loans on the statement of financial position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognized. Objective evidence is represented by observable data that comes to the attention of the Bank and includes events that indicate:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- a high probability the borrower will enter bankruptcy or a financial reorganization;

Impairment of loans and allowance for credit losses (continued):

- a measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan; and
- the Bank for economic and other reasons relating to the borrower's financial difficulty, granting the borrower a concession that the Bank would not otherwise consider.

Loans where interest and principal is contractually past due 90 days in arrears are generally recognized as impaired, unless management determines the loan is fully secured, the collection of the debt is in process, and the collection efforts are reasonably expected to result in repayment of the loan or in restoring it to a current status within 180 days from the date payment has become contractually in arrears. Finally, a loan that is contractually 180 days in arrears is classified as impaired in all situations.

Credit Risk Ratings are assigned to each loan on a scale of 0 to 16, with credits rated SBIC0 through SBIC12 considered "Satisfactory", SBIC13 being "Especially mentioned" and SBIC14 as "Sub-standard".

The following table presents the gross loans outstanding as at December 31 that were neither past due nor impaired:

	2018	2017
	$	$
Risk rating categories:		
Satisfactory (SBIC0 through 12)	**948,351**	818,047
Especially mentioned (SBIC13)	**10,017**	46,543
Substandard (SBIC14)	**19,107**	2,849

An exposure rated SBIC15 or SBIC16 is classified as impaired under “Doubtful” and “Loss” categories, respectively. For loans in SBIC15 and SBIC16, losses are identifiable on an individual basis and accordingly a specific allowance is established.

As at December 31, 2018, the total gross impaired loans were $1 (2017 - $25,089) against which an allowance of $Nil (2017 - $12,604) was recorded. See Note 27 for settlement during fiscal 2018 of the previously recorded impaired loans.

3. Significant accounting policies (continued)

Individually assessed loans and advances:

The Bank considers evidence of impairment for loans and advances at an individual level. For all loans that are considered individually significant, the Bank assesses on a case-by-case basis at each reporting period whether an individual allowance for loan losses is required.

For those loans where objective evidence of impairment exists, impairment losses are determined by considering the following factors:

- The Bank's aggregate exposure to the borrower;
- The realizable value of security and the likelihood of successful repossession;
- The amount and timing of expected receipts and recoveries;
- The likely proceeds available on liquidation or bankruptcy;
- The viability of the borrower's business model and ability to generate sufficient cash flows to service its debt obligations; and
- The extent of other creditors' commitment which ranks ahead of the Bank.

Individually assessed loans and advances (continued):

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Specific allowances are recorded on these individual loans on an account-by-account basis to reduce their carrying value to the estimated realizable amount. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

Collectively assessed loans and advances:

Impairment is assessed on a collective basis to cover:

- Losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- Losses from a homogeneous group of loans that are not considered individually significant.

Loans for which the evidence of loss has been specifically identified on an individual basis, the underlying metrics, including the probability of default, loss given default and exposure at default, for each customer is derived from the Bank's internal rating systems as a basis for determining the collective allowance.

The level of collective allowance is reassessed each quarter and may fluctuate as a result of changes in portfolio volumes, concentrations and risk; analysis of developing trends in probability of loss, severity of loss and exposure at default factors; and management's current assessment of indicators that may have affected the condition of the portfolio.

The loan impairment charges and other credit risk provisions are charged to the statement of comprehensive income and comprises the amounts written off during the year, net of recoveries on amounts written off in prior years, and changes in provisions.

3. Significant accounting policies (continued)

Write-off of loans and advances:

Loans and the related impairment allowances are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write off may be earlier.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognized, the excess is written back by reducing the loan impairment allowance account accordingly.

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.

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.

3. Significant accounting policies (continued)

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.
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.

3. Significant accounting policies (continued)

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.

i) Lease payments

Payments made under operating leases are recognized in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Contingent lease payments are accounted for in the period in which they are incurred.

j) 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 AFS investment securities calculated on an effective interest basis.

k) 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.

3. Significant accounting policies (continued)

k) Foreign currency transactions (continued)

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.

l) 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 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.

m) 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.

n) 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.

(in thousands of Canadian dollars)

3. Significant accounting policies (continued)

o) Standards, amendments and interpretations issued but not yet adopted

Leases (“IFRS 16”)
IFRS 16 requires lessees to recognize most leases on their statement of financial position as lease liabilities, with the corresponding right-of-use assets. Lessees will have the option not to recognize leases with duration of less than one year and those of low-value assets. Generally, the recognition pattern for recognized leases will be similar to the current finance lease accounting, with interest and depreciation expense recognized separately in the statement of comprehensive income. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early application permitted. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Bank has adopted IFRS 16 effective January 1, 2019 using the modified retrospective approach and is currently finalizing its assessment of the impact of the adoption of IFRS 16 on its financial statements”.

4. Investment securities

(a) Carrying Value of securities (IFRS 9 – effective January 1, 2018)

(i) FVOCI Securities

As at December 31, 2018 the fair value of the FVOCI securities is as shown below:

2018	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value of securities
	$	$	$	$
Government bonds	24,013	-	(333)	23,680
Corporate bonds	26,395	-	(387)	26,008
Corporate equities	95	42	-	137
	50,503	**42**	**(720)**	**49,825**

As at December 31, 2018 the composition and maturity profile of FVOCI securities are as follows:

2018	Under 1 year	1 to 5 years	With no specific maturity	Total
	$	$	$	$
Government bonds	5,052	18,628	-	23,680
Corporate bonds	-	26,008	-	26,008
Corporate equities	-	-	137	137
Total	**5,052**	**44,636**	**137**	**49,825**

As at December 31, 2018, interest-bearing bonds with stated interest rates of 3.13% to 5.84% are included within the above FVOCI securities.

As at December 31, 2018, FVOCI securities include $9,880 denominated in foreign currencies.

(in thousands of Canadian dollars)

(ii) Amortized cost securities, net of allowance

2018	
	$
Corporate bonds	22,100
Total	**22,100**

As at December 31, 2018 the composition and maturity profile of amortized cost securities are as follows:

2018	Under 1 year	1 to 5 years	Total
	$	$	$
Corporate bonds	22,100	-	22,100
Total	**22,100**	**-**	**22,100**

As at December 31, 2018, included within the above amortized cost securities are interest-bearing bonds with stated interest rates of 3.05% to 4.80%.

As at December 31, 2018, amortized cost securities include $19,109 denominated in foreign currencies.

(b) Carrying Value of Securities (IAS 39 – up to December 31. 2017)

(i) Available-for-sale securities

As at December 31, 2017 the fair value of the AFS securities is as shown below:

2017	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value of securities
	$	$	$	$
Government bonds	24,705	-	(490)	24,215
Corporate bonds	27,788	4	(163)	27,629
Corporate equities	-	-	-	-
	52,493	**4**	**(653)**	**51,844**

As at December 31, 2017 the composition and maturity profile of AFS securities are as follows:

2017	Under 1 year	1 to 5 years	With no specific maturity	Total
	$	$	$	$
Government bonds	-	24,215	-	24,215
Corporate bonds	9,924	17,705	-	27,629
Corporate equities	-	-		-
Total	**9,924**	**41,920**	**-**	**51,844**

(in thousands of Canadian dollars)

As at December 31, 2017, interest-bearing bonds with stated interest rates of 3.00% to 5.75% are included within the above AFS securities.

As at December 31, 2017, AFS securities include $19,158 denominated in foreign currencies.

(ii) Held-to-maturity securities

	2017
	$
Corporate bonds	33,749
Total	**33,749**

As at December 31, 2017 the composition and maturity profile of HTM securities are as follows:

			2017
	Under 1 year	**1 to 5 years**	**Total**
	$	**$**	**$**
Corporate bonds	-	33,749	33,749
Total	**-**	**33,749**	**33,749**

As at December 31, 2017, included within the above HTM securities are interest-bearing bonds with stated interest rates of 3.05% to 4.80%.

As at December 31, 2017, HTM securities include $17,598 denominated in foreign currencies.

5(a). Loans and advances to customers

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

			2018			2017
	Gross amount	**Impairment allowance**	**Carrying amount**	Gross amount	Impairment allowance	Carrying amount
	$	**$**	**$**	$	$	$
Retail customers:						
Mortgage lending	**97,436**	**248**	**97,188**	109,186	32	109,154
Personal loans	**23,169**	**10**	**23,159**	21,101	18	21,083
	120,605	**258**	**120,347**	130,287	50	130,237
Corporate customers:						
Mortgage lending	**371,900**	**426**	**371,474**	346,265	1,417	344,848
Syndication	**474,707**	**2,163**	**472,544**	406,753	14,242	392,511
Other	**10,262**	**-**	**10,262**	9,223	16	9,207
	856,869	**2,589**	**854,280**	762,241	15,675	746,566
	977,474	**2,847**	**974,627**	892,528	15,725	876,803

As at December 31, 2018, loans and advances to customers include $317,175 (2017 - $266,080) denominated in foreign currencies.

(in thousands of Canadian dollars)

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

	2018	2017
	$	$
Specific allowance for impairment:		
Balance at January 1	**12,604**	7,973
Impairment loss for the year:		
Charges (recovery) for the year (Note 27)	**(3,316)**	4,831
Recoveries	**-**	302
Write-offs (Note 27)	**(9,518)**	(7)
Other Movements	**230**	(495)
Balance at December 31	**-**	12,604
Collective allowance for impairment:		
Balance at January 1	**3,121**	3,527
Impairment loss for the year:		
Charges for the year	**(1,185)**	(520)
Other movements	**911**	114
Balance at December 31	**2,847**	3,121
	2,847	15,725

6. Allowance for undrawn commitments

	2018	2017
	$	$
Undrawn commitments	**108,411**	104,489
Allowance for undrawn commitments:		
Balance at January 1	**270**	266
Other movements/Impairment loss for the year	**(270)**	4
Balance at December 31	**-**	270

	2018	2017
	$	$
Undrawn commitments	95,951	104,489
Allowance for undrawn commitments:		
Balance at January 1	270	266
Charges for the year	-	4
Other movements	(270)	-
Balance at December 31	270	270

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

Cost:

	Furniture and equipment	Computers	Leasehold improvements	Total
	$	**$**	**$**	**$**
Balance at January 1, 2018	**1,768**	**252**	**2,125**	**4,145**
Acquisitions	**29**	**23**	**-**	**52**
Disposals	**54**	**57**	**-**	**111**
Balance at December 31, 2018	**1,743**	**218**	**2,125**	**4,086**
Balance at January 1, 2017	1,886	288	3,368	5,542
Acquisitions	56	13	217	286
Disposals	174	49	1,460	1,683
Balance at December 31, 2017	1,768	252	2,125	4,145

Accumulated depreciation:

	Furniture and equipment	Computers	Leasehold improvements	Total
	$	**$**	**$**	**$**
Balance at January 1, 2018	**1,481**	**212**	**1,544**	**3,237**
Depreciation for the year	**56**	**15**	**139**	**210**
Disposals	**33**	**55**	**-**	**88**
Balance at December 31, 2018	**1,504**	**172**	**1,683**	**3,359**
Balance at January 1, 2017	1,550	234	2,839	4,623
Depreciation for the year	65	15	165	245
Disposals	134	37	1,460	1,631
Balance at December 31, 2017	1,481	212	1,544	3,237

Carrying amount:

	Furniture and equipment	Computers	Leasehold improvements	Total
	$	$	$	$
Balance at December 31, 2018	**239**	**46**	**442**	**727**
Balance at December 31, 2017	287	40	581	908

(in thousands of Canadian dollars)

8. Intangible assets

Cost

	Purchased software
	$
Balance at January 1, 2018	**1,208**
Acquisitions	**-**
Balance at December 31, 2018	**1,208**
Balance at January 1, 2017	1,208
Acquisitions	-
Balance at December 31, 2017	1,208

Accumulated depreciation

	Purchased software
	$
Balance at January 1, 2018	**1,083**
Depreciation for the year	**36**
Balance at December 31, 2018	**1,119**
Balance at January 1, 2017	1,032
Depreciation for the year	51
Balance at December 31, 2017	1,083

Carrying amounts

	Purchased software
	$
Balance at December 31, 2018	**89**
Balance at December 31, 2017	125

(in thousands of Canadian dollars)

9. Other assets

	2018	2017
	$	$
Accrued interest receivable	**2,644**	1,939
Prepaid expenses	**1,778**	1,462
Other	**581**	762
	5,003	4,163

10. Deposits from banks

	2018	2017
	$	$
Current deposits from banks	**5,721**	5,057
Money market term deposits	**47,745**	43,911
	53,466	48,968

As at December 31, 2018, deposits from the parent bank and other related parties was $5,538 (2017 - $4,956).

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.

	2018	2017
	$	$
Retail customers:		
Term deposits	**227,046**	205,064
Current deposits	**164,502**	172,284
Corporate customers:		
Term deposits	**419,996**	369,829
Current deposits	**47,291**	39,283
	858,835	786,460

At December 31, 2018, $242,356 (2017 - $253,092) of deposits from customers are expected to be settled more than 12 months after the reporting date. Total deposits include $115,622 (2017 - $117,308) denominated in foreign currencies, which are principally U.S. dollar-denominated.

(in thousands of Canadian dollars)

12. Other liabilities

	Note	2018	2017
		$	$
Cheques and other items in transit		**1,055**	1,056
Income tax payable		**2,679**	963
Accounts payable		**1,890**	2,645
Loans funding obligation		**-**	3,783
Accrued interest payable		**10,570**	7,248
Deferred income		**1,921**	142
Allowance for off-balance sheet commitments	6	**-**	270
		18,115	16,107

As at December 31, 2018, other liabilities include a loan of $ Nil (2017 - $3,783) on risk-participation basis which is not funded and reported as loan funding obligation.

13. Income taxes

a) 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 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

	2018	2017
	$	$
Current tax:		
In respect of the current year	**4,207**	1,511
Current tax reclassified to other comprehensive income	**9**	41
Deferred tax:		
In respect of the current year	**529**	122
	4,745	1,674

ii) Income tax recognized in other comprehensive income

	2018	2017
	$	$
Current tax:		
Fair value re-measurement of available-for-sale financial assets	**(8)**	(46)
Current tax reclassified to comprehensive income	**(1)**	5
	(9)	(41)

(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:

	2018			2017		
	Assets	**Liabilities**	**Net**	Assets	Liabilities	Net
	$	**$**	**$**	$	$	$
Property and equipment	**-**	**10**	**(10)**	-	16	(16)
Intangible assets	**-**	**24**	**(24)**	-	33	(33)
Allowances for loan losses	**775**	**-**	**775**	1,165	-	1,165
Net unearned fees	**808**	**324**	**484**	719	274	445
Net tax assets/(liabilities)	**1,583**	**358**	**1,225**	1,884	323	1,561

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

2018	**Opening balance**	**Impact on adoption on IFRS 9**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Closing balance**
	$	$	$	$	$
Property and equipment	**(16)**	**-**	**6**	**-**	**(10)**
Intangible assets	**(33)**	**-**	**9**	**-**	**(24)**
Allowances for loan losses	**1,165**	**194**	**(584)**	**-**	**775**
Net unearned income	**445**	**-**	**39**	**-**	**484**
	1,561	**194**	**(530)**	**-**	**1,225**

2017	Opening balance		Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
	$	$	$	$	$
Property and equipment	37	-	(53)	-	(16)
Intangible assets	(46)	-	13	-	(33)
Allowances for loan losses	1,149	-	16	-	1,165
Ontario Corporate Minimum Tax	38	-	(38)	-	-
Net unearned income	505	-	(60)	-	445
	1,683	-	(122)	-	1,561

(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 26.57% (2017- 26.43%) to pre-tax income as a result of the following:

	2018	2017
	$	$
Net income before income taxes	**17,290**	6,132
Income taxes at statutory tax rate	**4,594**	1,621
Increase in income taxes resulting from:		
Non-deductible items	**3**	8
Other	**148**	45
Income taxes	**4,745**	1,674
Effective tax rate	**27.44%**	27.30%

14. Other income

	2018	2017
	$	$
Loan fees	**2,337**	3,029
Foreign exchange gain	**1,270**	827
Other	**862**	372
Remittances	**451**	410
Collection charges	**121**	145
Guarantees	**108**	153
Letters of credit	**54**	53
Net gains on sale of corporate bonds	**23**	182
Interest rate contracts	**(9)**	63
	5,217	5,234

(in thousands of Canadian dollars)

15. Other non-interest expenses

	2018	2017
	$	$
Insurance	**979**	834
Other	**709**	722
Parent bank charges	**520**	561
Communications	**441**	383
Travelling	**314**	253
Professional fees	**233**	263
Directors' fees	**150**	147
Association and regulatory	**132**	110
Advertisement	**102**	69
Printing and stationery	**93**	86
Legal	**67**	105
Brokerage and bank charges	**60**	299
	3,800	3,832

16. Subordinated debt

As at December 31, 2018, 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 (2017 - $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:

		2018		2017
	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, 2018	Basel III as at December 31, 2017
	$	$
Regulatory capital and capital ratios:		
Common Equity Tier 1 capital:		
Common shares	**117,784**	117,784
Contributed surplus	**5,934**	5,934
Retained earnings	**25,875**	13,866
Accumulated other comprehensive loss	**(499)**	(478)
Common Equity Tier 1 capital before regulatory adjustments	**149,094**	137,106
Total regulatory adjustments to Common Equity Tier 1	**(65)**	(92)
Total Tier 1 capital	**149,029**	137,014
Tier 2 capital:		
Subordinated debt	**20,000**	20,000
Total regulatory capital	**169,029**	157,014
Capital ratios:		
Tier 1 capital	**14.21%**	14.42%
Total capital	**16.39%**	16.52%

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:

	2018	2017
	$	$
On-balance sheet items and specified off-balance sheet items, net of specified adjustments	**1,165,440**	1,065,546
Leverage Ratio	**12.79%**	12.86%

(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:

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

				2018	2017
	Within 1 year	**1 to 5 years**	**Over 5 years**	**Total**	Total
	$	**$**	**$**	**$**	$
Foreign exchange contracts	**189,538**	**-**	**-**	**189,538**	134,359
Interest rate contracts	**-**	**18,821**	**-**	**18,821**	12,000
	189,538	**18,821**	**-**	**208,359**	146,359

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:

			2018			2017
	Positive fair value	**Negative fair value**	**Net fair value**	Positive fair value	Negative fair value	Net fair value
	$	**$**	**$**	$	$	$
Foreign exchange contracts	**1**	**(1,354)**	**(1,353)**	2,198	(57)	2,141
Interest rate contracts	**76**	**(2)**	**74**	80	-	80
	77	**(1,356)**	**(1,279)**	2,278	(57)	2,221

Current replacement cost is the positive fair value of outstanding derivative financial instruments, which represents 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 for 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.

(in thousands of Canadian dollars)

19. Derivatives (continued)

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

	2018			2017		
	Current replacement cost	**Credit equivalent amount**	**Risk-weighted amount**	Current replacement cost	Credit equivalent amount	Risk-weighted amount
	$	**$**	**$**	$	$	$
Canada						
Foreign exchange contracts	**-**	**1,451**	**290**	1,605	53	11
Interest rate contracts	**76**	**170**	**61**	80	140	28
Other Countries						
Foreign exchange contracts	**1**	**409**	**85**	593	164	38
Interest rate contracts	**-**	**-**	**-**	-	-	-
	77	**2,030**	**436**	2,278	357	77

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 largest and smallest group which includes the Bank, and which prepares publicly available consolidated financial statements is the parent bank.

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. The Bank relies on its parent bank for a certain portion of its funding requirement.

(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:

	2018	2017
	$	$
Assets:		
Deposits with banks	**2,330**	4,126
Liabilities:		
Deposits from banks	**53,283**	48,867
Derivative liabilities	**2**	-
Other liabilities	**520**	149
Subordinated debt	**20,000**	20,000
Statement of comprehensive income		
Interest income	**68**	12
Interest expenses	**2,858**	1,130
Other income	**16**	4
Non-interest expenses	**617**	651
Derivatives		
Foreign exchange contracts	**294**	491

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:

Central government of India-related entities.

	2018	2017
	$	$
Assets:		
Loan and advances to customers	**-**	-
Liabilities:		
Deposits from customers	**5,092**	3,735
Statement of comprehensive income		
Interest income	**-**	39
Interest expenses	**37**	91
Other income	**-**	11

(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:

	2018	2017
	$	$
Short-term benefits	**1,603**	1,306

In addition, during the year ended December 31, 2018 the Bank disbursed personal loans to KMP in the amount of $0 (2017 - $15) at rates of interest ranging from 1.85% to 2.95% (2017 - 1.85% to 2.95%), of which the balance outstanding as at December 31, 2018 is $2,012 (2017 - $2,062).

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

	2018	2017
	$	$
Canada	**943,118**	888,480
United States	**125,298**	64,954
India	**31,183**	53,367
Other countries	**1,313**	1,897
	1,100,912	1,008,698

b) Interest income:

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

	2018	2017
	$	$
Canada	**30,748**	27,250
United States	**4,237**	1,244
India	**1,727**	2,699
Other countries	**84**	2
	36,796	31,195

(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.

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

2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial assets:				
Securities				
Financial assets at fair value through OCI	**-**	**49,825**	**-**	**49,825**
Debt securities at amortized cost	**-**	**22,270**	**-**	**22,270**
Derivatives				
Foreign exchange contracts	**-**	**1**	**-**	**1**
Interest rate contracts	**-**	**76**	**-**	**76**
	-	**72,172**	**-**	**72,172**
Financial liabilities				
Derivatives				
Foreign exchange contracts	**-**	**1,354**	**-**	**1,354**
Interest rate contracts		**2**	**-**	**2**
	-	**1,356**	**-**	**1,356**

2017	Level 1	Level 2	Level 3	Total
	$	$	$	$
Financial assets:				
Securities				
AFS securities	-	51,844	-	51,844
HTM securities	-	34,310	-	34,310
Derivatives				
Foreign exchange contracts	-	2,198	-	2,198
Interest rate contracts	-	80	-	80
	-	88,432	-	88,432
Financial liabilities				
Derivatives				
Foreign exchange contracts	-	57	-	57
	-	57	-	57

(in thousands of Canadian dollars)

22. Fair values of financial instruments (continued)

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

	2018			2017		
	Carrying value	**Fair value**	**Fair value over carrying value**	Carrying value	Fair value	Fair value over carrying value
	$	**$**	**$**	$	$	$
Assets						
Cash and bank balances	**47,239**	**47,239**	**-**	37,267	37,267	-
Investment securities	**71,925**	**72,082**	**157**	85,593	86,153	560
Loans and advances to banks	-	-	**-**	-	-	-
Loans and advances to customers	**974,627**	**972,963**	**(1,664)**	876,803	872,407	(4,396)
Other assets	**7,121**	**7,121**	**-**	9,035	9,035	-
	1,100,912	**1,099,405**	**(1,507)**	1,008,698	1,004,862	(3,836)
Liabilities						
Deposits from banks	**53,466**	**53,466**	**-**	48,968	48,968	-
Deposits from customers	**858,835**	**860,461**	**1,626**	786,460	790,960	4,500
Other liabilities	**19,471**	**19,471**	**-**	16,164	16,164	-
Subordinated debt	**20,000**	**20,000**	**-**	20,000	20,000	-
	951,772	**953,398**	**1,626**	871,592	876,092	4,500

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

Lease commitments

The Bank has obligations under long-term, non-cancellable, operating leases. As at December 31, 2018, the future minimum lease payments in each of the next five fiscal years and thereafter are as follows:

	$
2019	667
2020	388
2021	184
2022	196
2023	157
Thereafter	378
	1,970

For the year ended December 31, 2018, the lease rental expense in respect of Bank premises recorded in the statement of comprehensive income was $556 (2017 - $1,171).

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:

	2018	2017
	$	$
Commitments to extend credit	**93,696**	94,558
	93,696	94,558

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, 2018 and 2017, 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.

(in thousands of Canadian dollars)

24. Guarantees

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

	2018	2017
	$	$
Maximum potential future payment:		
Bank Guarantee	**14,715**	9,931

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.

25. Interest rate risk and maturity profile

An analysis of the Bank's interest rate risk by the contractual repricing or maturity dates, whichever is earlier, as at December 31, 2018, is as follows:

	Floating rate	3 months or less	3 months to 1 year	1 to 5 years	Over 5 years	Non-rate sensitive	Total
	$	**$**	**$**	**$**	**$**	**$**	**$**
Assets							
Cash and bank balances	20,000	13,290	-	-	-	13,949	47,239
Investment securities	-	-	27,165	44,635	-	125	71,925
Loans and advances to customers	63,535	449,672	62,121	396,465	3,388	2,293	977,474
Allowance for credit losses	-	-	-	-	-	(2,847)	(2,847)
Other assets	-	-	-	-	-	7,121	7,121
	83,535	462,962	89,286	441,100	3,388	20,641	1,100,912
Liabilities and Shareholder's Equity							
Deposits from banks	-	13,642	34,103	-	-	5,721	53,466
Deposits from customers	199,915	78,946	327,297	241,952	405	10,320	858,835
Other liabilities	-	-	-	-	-	19,471	19,471
Subordinated debt	-	-	20,000	-	-	-	20,000
Shareholder's equity	-	-	-	-	-	149,140	149,140
	199,915	92,588	381,400	241,952	405	184,652	1,100,912
Excess (deficiency) of assets over liabilities and shareholder's equity	(116,380)	370,374	(292,114)	199,148	2,983	(164,011)	-
Off-balance sheet position							
Swap assets	-	-	-	-	-	-	-
Swap liabilities	-	12,000	6,821	(18,821)	-	-	-
Off-balance sheet gap	-	12,000	6,821	(18,821)	-	-	-
Total gap	(116,380)	382,374	(285,293)	180,327	2,983	(164,011)	-

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 Senior Management, 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 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 line of defence model for risk management. The branches, Credit Processing Cell, 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 (the "CRMP"), which is approved by its Board of Directors describes the principles that underlie and drive the Bank's approach to credit risk management, together with the systems and processes through which it is implemented and administered. The CRMP aims to maximize the Bank's risk-adjusted rate of return whilst maintaining the Bank's credit risk exposure within limits and parameters, as approved by the Board of Directors of the Bank.

The Bank takes a two-tier approach to assessment of credit risk - a commercial officer proposing the transaction followed by an independent credit committee assessment of the same. The CRMP lays 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 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 CCC and the RMCB 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, 2018, the Bank’s exposure to credit risk is described in Notes 3(b)(iv) 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 Security 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. The Bank uses interest rate contracts 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 the Enterprise Risk Management Policy shall not exceed U.S. $6 million. The Bank uses foreign exchange contracts to manage its exposure to currency fluctuations as described in Note 20. The Bank’s main exposure to foreign exchange risk, primarily US dollars, is described in Notes 4, 5, 6 and 12. As at December 31, 2018, the impact of a 10 percent change in the Canadian dollar relative to the US dollar would have a $304 (December 31, 2017 - $291) 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. The maturity profile of the Bank’s financial assets and liabilities is presented in Note 25.

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 Internal Audit, and is approved by the Board of Directors. Senior management also regularly monitors the positions taken on a daily basis. The ALCO and the RMCB undertake a periodic review of the market risk and liquidity position of the Bank.

26. Risk management framework (continued)

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 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.

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. – Loans and Advances from Bhushan Steel Limited

As at December 31, 2017, the Bank had gross impaired loans due from Bhushan Steel Limited (“BSL”) of $25,089 against which a specific allowance of $12,604 was recorded. In May 2018, BSL was acquired by Tata Steel, and thereafter was renamed Tata Steel BSL Limited.

During the year ended December 31, 2018, because of the BSL restructuring and acquisition by Tata Steel, the Bank recorded a recovery of $3,086 and also received equity shares in Tata Steel BSL Limited with a fair value of $136 as of the year-end. The remaining specific allowance balance was reversed.

28. Subsequent Event

At its meeting on February 27, 2019, the Board of Directors approved a dividend of $627 to its parent bank.