Habib Canadian Bank

Basel II Pillar 3 Supplemental Disclosures

as of December ME, 2011

(March, 2012)

Abbreviations & acronyms used:

- ICAAP – the Internal Capital Adequacy Assessment Process
- HCB – Habib Canadian Bank
- HBZ – the parent of HCB - Habib Bank AG, Zurich
- Group – the HBZ Group
- SM – the senior management of HCB
- BD – the Board of Directors of HCB
- CRO (Credit) – the designated Chief Risk Officer (Credit)
- RM – the Risk Management
- IA – the Internal Audit of HCB (administered by HBZ)
- IAS or IFRS – International Accounting Standard or International Financial Reporting Standards
- Basel II - the Basel II framework: International Convergence of Capital Measurement and Capital Standards: A Revised Framework – Comprehensive Version (June 2006).
- BCAR – Capital adequacy ratio
- CAR – OSFI Guideline 'Capital Adequacy Requirement (CAR) – Simpler Approaches'
- IFRS(s) –International Financial Reporting Standards ('IFRSs')
- ME – the month end
- QE – the quarter end
- YE – the year end

Sign-off:

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Board Approval:

March, 2012

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1. Introduction

Since 2008 Habib Canadian Bank ('HCB' or 'Bank') operates under the Basel II capital framework ("Basel II"), Simpler Approach (based on the revised international capital adequacy standards as recommended by the Basel Committee on Banking Supervision in 2004) in accordance with the Office of the Superintendent of Financial Institutions Canada ('OSFI') Guideline on *Capital Adequacy Requirements (CAR)* - CAR A*.

*Note: Canada, as a member of the Basel Committee on Banking Supervision, participated in the development of the framework, Basel II: International Convergence of Capital Measurement and Capital Standards ('Basel II'): A Revised Framework – Comprehensive Version (June 2006). The domestic guidance CAR A is based on the Basel II framework. It also encompasses and updates relevant parts of the 1988 Basel Accord and reflects changes to the Basel II framework that have occurred since its implementation.

The Basel II framework consists of three pillars each of them concentrating on a different aspect of banking regulation.

— Pillar 1 makes recommendations for calculation of minimum capital requirements.

— Pillar 2 discusses the key principles of supervisory review and risk management guidance.

— Pillar 3 complements the first two pillars of Basel II by requiring a range of disclosures on capital and risk assessment processes, aimed at encouraging and reinforcing market discipline.

The *Basel II Pillar 3 Supplemental Disclosures* ('*Pillar 3 Disclosures')* for 2011 year is prepared in accordance with requirements of the OSFI *Advisory on Pillar 3 Disclosure Requirements* (November 2007), related OSFI guidelines and letters and the Bank's internal policy on *Basel II Pillar 3 Disclosures.*

Note: HCB is a part of Habib Bank Zurich AG Group ('HBZ') which prepares its own regulatory Basel II reports and Basel II Pillar 3 disclosures in accordance with Swiss regulatory requirements. The scope of the *Basel II Pillar 3 Disclosures* relates only to the HCB business and Basel II Pillar 3 Disclosure requirements in Canada.

2. Scope of Application

The Pillar 3 Supplemental Disclosures are additional summary descriptions and quantitative financial information which supplement those made in the *Habib Canadian Bank's* ('HCB' or 'Bank') *Annual Report (audited) for 2011* for the disclosure requirements under OSFI's Pillar 3 Disclosure Requirements Advisory (2007) consistent with Basel II and IFRSs.

The publication of this document fulfills a key requirement of the Basel II Framework, encouraging market discipline by allowing market participants to assess increased disclosure surrounding both the risk management framework and the capital adequacy of the Bank.

The disclosures produced within this document have been prepared in accordance with minimum disclosure requirements interpreted by OSFI and established under the OSFI Advisory on Pillar 3 Disclosure Requirements (November 2007) and related OSFI guidelines and letters; and should be read along with the *Bank's Annual Report (audited) for 2011.*

Note: The disclosure requirements in relation to remuneration will be implemented with the 2012 fiscal year-end, and the frequency of remuneration disclosures will be made on an annual basis[1].

Comparison with the Bank's Annual Report (audited) for 2011 fiscal year

The *Pillar 3 Disclosures* have been prepared in accordance with regulatory capital adequacy concepts and rules, rather than in accordance with *International Financial Reporting Standards* ('IFRS'). Therefore, some information in the *Pillar 3 Disclosures* is not directly comparable with the financial information in the *Bank's Annual Report (audited) for 2011*. This is most pronounced for the credit risk disclosures, where credit exposure is defined as the amount at risk that is calculated by the Bank under specified Basel II – Simpler Approach parameters.

This differs from similar information in the *Bank's Annual Report (audited) for 2011*, which is mainly reported at the balance sheet date and therefore does not reflect the likelihood of future drawings of committed credit lines.

The *Pillar 3 Disclosures* along with the Bank's financial statements in the *Bank's Annual Report (audited) for 2011* are presented in Canadian dollars, which is the Bank's functional currency. Except as otherwise indicated, financial information presented in Canadian dollars has been rounded to the nearest thousand.

[1] In accordance with the OSFI letter on Implementation of Basel II Pillar 3 Disclosure Requirements for Remuneration, dated December 1, 2011

The preparation of the *Pillar 3 Disclosures* along with the Bank's financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in respective notes of the Bank's Annual Report (audited) for 2011 fiscal year.

Transitioning to IFRSs

As stated in note (a) Statement of Compliance of the *Bank's Annual Report (audited) for 2011*, the Bank's first financial statements are prepared in accordance with IFRSs.

The accounting policies have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS statements of financial position at January 1, 2010 (the Bank's date of transition).

There was no impact to opening retained earnings on January 1, 2010 or December 31, 2010 or comprehensive income for the year ended December 31, 2010 upon the adoption of IFRSs.[2]

The transition to IFRS did not have a material effect on the Bank's regulatory capital.

Significant subsidiaries

The Bank has no subsidiaries or entities for consolidation.

Verification

The *Pillar 3 Disclosures* are not required to be subjected to external audit. Instead, the disclosures are verified and approved through internal reporting procedures. The *Pillar 3 Disclosures* include information that is contained within the audited financial statements as reported in the *Bank's Annual Report (audited) for 2011 fiscal year*.

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[2] Refer to Note 17 'Explanation of transition to IFRS' of the Bank's Annual Report (audited) for 2011 fiscal year

3. Scope of Basel II permissions

Credit risk capital requirements

Basel II applies three approaches of increasing sophistication to the calculation of Pillar 1 credit risk capital requirements. The most basic level, the standardized approach, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are grouped into broad categories and standardized risk weightings are applied to these categories. The next level, the internal ratings-based ('IRB') foundation approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of a counterparty's probability of default ('PD'), but subjects their quantified estimates of exposure at default ('EAD') and loss given default ('LGD') to standard supervisory parameters. Finally, the IRB advanced approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD.

Since 2008, the Bank is applying the standardized ('Simpler') approach.

Market risk capital requirement

Market risk is the risk that movements in market risk factors, including foreign exchange, commodity prices, interest rates, credit spread and equity prices will reduce the income or the value of the portfolios. The market risk capital requirement is measured using internal models, where approved, or the standardized approach.

The Bank has adopted the standardized approach in determining its market risk capital requirement.

Operational risk capital requirement

Basel II includes capital requirements for operational risk, again utilizing three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues, whereas under the standardized approach, it is one of three different percentages of gross revenues allocated to each of eight defined business lines. Both these approaches use an average of the last three financial years' revenues. Finally, the advanced measurement approach uses banks' own statistical analysis and modeling of operational risk data to determine capital requirements.

The Bank has adopted the basic indicator approach in determining its operational risk capital requirement.

4. Forward Looking Statements

This document includes or may include certain forward looking statements with respect to the business, strategy and plans of Habib Canadian Bank (‘HCB’) and its current goals and expectations relating to its future financial condition and performance.

Statements that are not historical facts, including statements about HCB or its directors' and / or management’s beliefs and expectations, are forward looking statements. Words such as ‘believes’, ‘anticipates’, ‘estimates’, ‘expects’, ‘intends’, ‘aims’, ‘potential’, ’will’, ‘would’, ‘could’, ‘considered’, ‘likely’, ‘estimate’ and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future.

Examples of such forward looking statements include, but are not limited to, projections or expectations of the HCB’s future financial position including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, expenditures or any other financial items or ratios; statements of plans, objectives or goals of the Bank or its management including in respect of certain synergy targets; statements about the future business and economic environments in Canada and elsewhere including future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about, competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements.

Factors that could cause actual business, strategy, plans and / or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by the Bank or on its behalf include, but are not limited to: general economic and business conditions in Canada and internationally; inflation, deflation, interest rates and policies of the Bank of Canada and other G8 central banks; fluctuations in exchange rates, stock markets and currencies; the ability to access sufficient funding to meet the Bank’s liquidity needs; changes to the Bank’s creditworthiness; the ability to derive cost savings and other benefits; changing demographic developments including mortality and changing customer behavior including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; technological changes; natural and other disasters, adverse weather and similar contingencies outside the Bank’s control; inadequate or failed internal or external processes, people and systems; terrorist acts and other acts of war or hostility and responses to those acts, geopolitical, pandemic or other such events; changes in laws, regulations, taxation, accounting standards or practices; regulatory capital or liquidity requirements and similar contingencies outside the Bank’s control; the policies and actions of governmental or regulatory authorities in Canada, Swiss, or elsewhere; the ability to attract and retain senior management and other employees; requirements or limitations imposed on the Bank as a result of *Habib*

Bank AG Zurich investment in the Bank; the extent of any future impairment charges or write-offs caused by depressed asset valuations; market related trends and developments; exposure to regulatory scrutiny, legal proceedings or complaints; changes in competition and pricing environments; the inability to hedge certain risks economically; the adequacy of loss provisions / allowances; the actions of competitors; and the success of the Bank in managing the risks of the foregoing.

HCB may also make or disclose written and / or oral forward looking statements in reports filed with or furnished to the Office of the Superintendent of Financial Institutions Canada ('OSFI'), Bank annual reviews, announcements, proxy statements, circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of HCB to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward looking statements contained in this document are made as of the date hereof, and HCB expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document to reflect any change in HCB's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

5. Capital Adequacy

5.1. Capital management

The Bank's approach to capital management is driven by its strategic and organizational requirements, taking into account the regulatory, economic and business environment in which it operates. It is the Bank's objective to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. To achieve this, the Bank's policy is to hold an additional 4% capital above the regulatory minimum as a buffer above the minimum capital required by the OSFI (i.e. the HCB minimum BCAR level is 12%). This buffer may be re-examined.

Since July, 2011, the HBZ Group's requirement with respect to the HCB's internal regulatory target minimum of BCAR is set to be not less than 11.2%.

The policy on capital management is underpinned by a capital management framework, which enables Bank to manage its capital in a consistent and aligned manner. The framework, which is approved by the Bank's Board of Directors, incorporates a number of different capital measures including capital requirements to support future business plans and risk appetite, allocated capital, ICAAP ('Internal Capital Adequacy Assessment Process') and regulatory capital.

Internal Capital Adequacy Process ("ICAAP"):

In October 2010, OSFI issued a Guideline E-19, Internal Capital Adequacy Assessment Process (ICAAP) for Deposit-Taking Institutions, to outline their expectations with respect to an institution's internal capital adequacy process as described in Part 3 of the Basel II Framework. It is OSFI's expectation that every federally regulated financial institution ("FRFI"), including Canadian subsidiaries of foreign banks, will put into place an ICAAP that covers the operations from the top level regulated entity in Canada. In all instances, the ICAAP should reflect the FRFI's own circumstances, and not just those of a related group.

The Bank developed its own detailed Internal Capital Adequacy Process document in accordance with OSFI expectations that covers the following six main components:

(i) Board and senior management oversight;

(ii) Sound capital assessment and planning;

(iii) Comprehensive assessment of risks;

(iv) Stress testing;

(v) Monitoring and reporting; and

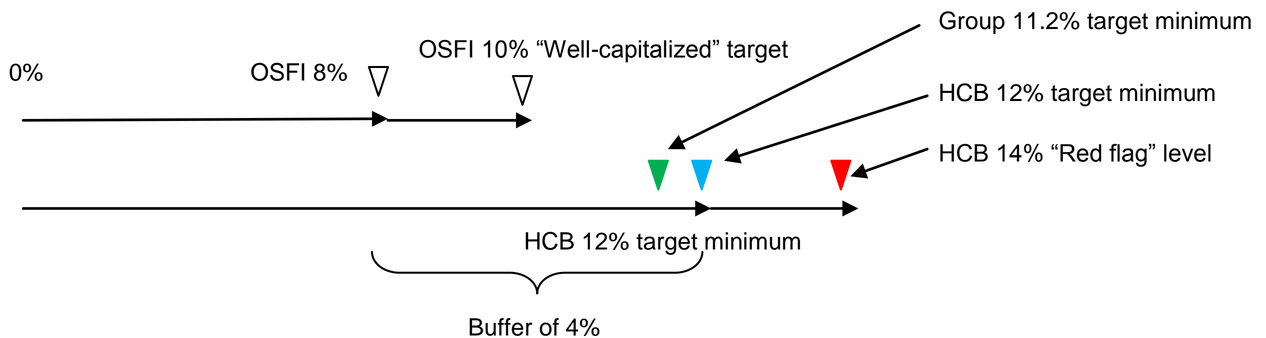
(vi) Internal control review.

The responsibility for overall capital allocation principles and decisions rests with the Bank's Board of Directors. The Board of Directors monitors total capital against all material risks identified with respect to the Bank's business lines.

Through the internal governance processes, the Bank's senior management is responsible for the investment and capital allocation decisions and assessments, and ensures that returns on investment are adequate after taking account of capital (capital vs. risk) requirements. The strategy is to allocate capital to business lines on the basis of their economic profit generation, and regulatory and economic capital requirements.

The Bank prepares its business 'baseline' forecasts (by months) including capital forecasts within its Annual Budget and Capital planning process.

HCB Target BCAR



5.2. Regulatory capital structure and assessment

The three primary considerations for defining the consolidated capital of an institution for purposes of measuring capital adequacy are:

- its permanence
- its being free of mandatory fixed charges against earnings
- its subordinated legal position to the rights of depositors and other creditors of the institution

Total (‘regulatory’, or ‘eligible’) capital comprises three tiers. Tier 1 (core capital) comprises the highest quality capital elements. Tier 2 elements (supplementary capital) fall short in meeting either of the first two capital properties listed above, but contribute to the overall strength of a company as a going concern. The definition of tier 2 capital differentiates between what are referred to as hybrid (tier 2A) and limited life (tier 2B) instruments. Tier 3 capital is used only to meet market risk capital requirements.

The capital elements comprising the three tiers, as well as the various limits, restrictions and deductions to which they are subject, are described in chapter 2 of the OSFI Guideline on *Capital Adequacy Requirements (CAR)* - CAR A.

Within the Bank (since 2008), the **Total regulatory (eligible) capital** comprises:

- Tier 1 (core capital) comprises only Common shareholders' equity (defined as common shares, contributed surplus, and retained earnings).
- Tier 2 is **nil**
- Tier 3 is **nil**

Total regulatory capital is calculated and reported under IFRSs.

Regulatory ratios are calculated by dividing Tier 1 and Total capital by risk-weighted assets[3] ("RWA").

The calculation of RWAs 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 trading portfolios. In addition, OSFI formally establishes risk-based capital targets for deposit-taking institutions. These targets are currently a Tier 1 capital ratio of 7% and a Total capital ratio of 10%.

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[3] In the Bank’s Annual Report (audited) for 2011 fiscal year, the ‘RWAs’ are referred as ‘risk-adjusted assets’ (‘RAA’).

In addition to the Tier 1 and Total capital ratios, Canadian banks are required to ensure that their assets-to-capital multiple ('ACM'), which is calculated by dividing gross-adjusted assets by Total capital, does not exceed a prescribed level.

The table 1 below provides the regulatory capital and ratios for the year ended December 31, 2011 and comparative information for the prior period.

Table1: Regulatory capital

	December 31, 2011	December 31, 2010	January 1, 2010
Capital structure and ratios:			
Tier 1 capital:			
Common shares	$ 15,000	$ 15,000	$ 15,000
Retained earnings	1,329	1,047	854
Total Tier 1 capital	16,329	16,047	15,854
Tier 2 capital:	-	-	-
Tier 3 capital:	-	-	-
Total regulatory (eligible) capital	16,329	16,047	15,854
Risk-weighted assets	88,568	69,962	68,317
Capital ratios:			
Tier 1 Ratio	18.44%	22.94%	23.21%
Total Ratio	18.44%	22.94%	23.21%
Total assets (on- and off-balance sheet)	$ 161,922	$ 142,874	$ 130,180
Assets-to-capital multiple	9.92	8.90	8.21

The Bank is in compliance with the imposed regulatory capital requirements to which it is subject.

5.3. Capital requirements for risks

Table2: Risk-weighted assets - by risk type and regulatory capital requirements

	December 31, 2011		December 31, 2010	
	RWAs	Capital required*	RWAs	Capital required*
Credit risk	$ 81,418	$ 8,142	$ 63,112	$ 6,311
Market risk	$ -	$ -	$ -	$ -
Operational risk	$ 7,150	$ 572	$ 6,850	$ 548
Total	$ 88,568	$ 8,714	$ 69,962	$ 6,859
Total regulatory capital		$ 16,329		$ 16,047
Surplus		$ 7,615		$ 9,188
BCAR		% 18.44		% 22.94

**Capital required for credit risk is the regulatory capital charge, calculated as 10% of RWAs*

Note: Capital requirements for credit and market risk are subject only to standardized approach; capital requirements for operational risk are subject to basic indicator approach.

Further information regarding Bank's Risk management framework and processes can be found in the *Bank's Annual Report (audited) for 2011 fiscal year*, Note 3 "Nature and extent of risk arising from financial instruments".

6. Credit risk: general disclosures

6.1. General qualitative disclosures

Qualitative disclosures with respect to definitions of past due and impaired (for accounting purposes), description of approaches followed for specific and general allowances, and discussion of the credit risk management policy are present in the *Bank's Annual Report (audited) for 2011 fiscal year*, Notes 1a (vii) "Identification and measurement of impairment", 1c "Loans and advances", 3a "Credit risk", and 5 "Past due and impaired assets and allowance for impairment".

6.2. Quantative disclosures

Quantitative disclosures with respect to

- total gross credit risk exposures* broken down by major types of credit exposure,
- geographic distribution of exposures of exposures broken down in significant areas by major types of credit exposure,
- industry distribution broken down by major types of credit exposure,
- disclosure on amount of impaired loans and past due loans, specific and collective allowances, charges for specific allowances and charge-offs during the period, and reconciliation of charges in the allowances for loan impairment

are presented in the *Bank's Annual Report (audited) for 2011 fiscal year*, Notes 3 "Nature and extent of risk arising from financial instruments", 4 "Exposure to credit risk", and 5 "Past due and impaired assets and allowance for impairment", and below.

- Total Gross Credit Exposure - Counterparty type distribution broken down by major types of credit exposure (for each quarter-end* during 2011 year):

December 31, 2011

Standardized	Drawn Exposure	Commitments (Undrawn)	OTC Derivatives*	Other Off Balance Sheet Items	Total	RWAs
Bank	$100,705	-	$53	$804	$101,562	$27,490
Sovereign	-	-	-	-	-	-
Corporate	$51,006	$9,711	$23	$2,162	$62,902	$50,930
Retail Residential Mortgages	$6,706	-	-	-	$6,706	$2,347
Other Retail	$257	$74	-	-	$331	$169
Total Gross Credit Exposure	**$158,674**	**$9,785**	**$76**	**$2,966**	**$171,501**	**$80,936**
Reconciliation to Statements of Financial Position						
Other Assets (not included in Standardized)	$783					**$482**
Total Assets subject to credit risk	**$159,457**					
Less Collective Allowance	$500					
Total Assets	**$158,957**			**Total RWAs**		**$81,418**
**includes replacement values*						

September 30, 2011

Standardized	Drawn Exposure	Commitments (Undrawn)	OTC Derivatives*	Other Off Balance Sheet Items	Total	RWAs
Bank	$114,303	-	$78	$52	$114,433	$26,575
Sovereign	-	-	-	-	-	-
Corporate	$44,615	$10,687	$235	$2,216	$57,753	$45,052
Retail Residential Mortgages	$5,339	-	-	-	$5,339	$1,869
Other Retail	$353	$67	-	-	$420	$244
Total Gross Credit Exposure	**$164,610**	**$10,754**	**$313**	**$2,268**	**$177,945**	**$73,740**
Reconciliation to Statements of Financial Position						
Other Assets (not included in Standardized)	$1,535					**$955**
Total Assets subject to credit risk	**$166,145**					
Less Collective Allowance	$410					
Total Assets	**$165,735**			**Total RWAs**		**$74,695**
**includes replacement values*						

June 30, 2011

Standardized	Drawn Exposure	Commitments (Undrawn)	OTC Derivatives*	Other Off Balance Sheet Items	Total	RWAs
Bank	$88,553	-	$37	$48	$88,638	$21,411
Sovereign	-	-	-	-	-	-
Corporate	$47,512	$7,394	$17	$3,198	$58,121	$46,154
Retail Residential Mortgages	$4,790	-	-	-	$4,790	$1,673
Other Retail	$322	$98	-	-	$420	$176
Total Gross Credit Exposure	**$141,177**	**$7,492**	**$54**	**$3,246**	**$151,969**	**$69,414**
Reconciliation to Statements of Financial Position						
Other Assets (not included in Standardized)	$1,030					**$691**
Total Assets subject to credit risk	**$142,207**					
Less Collective Allowance	$419					
Total Assets	**$141,788**			**Total RWAs**		**$70,105**
**includes replacement values*						

March 31, 2011

Standardized	Drawn Exposure	Commitments (Undrawn)	OTC Derivatives*	Other Off Balance Sheet Items	Total	RWAs
Bank	$106,808	-	$16	$48	$106,872	$24,061
Sovereign	-	-	-	-	-	-
Corporate	$39,125	$12,190	$26	$3,151	$54,492	$37,772
Retail Residential Mortgages	$2,404	-	-	-	$2,404	$835
Other Retail	$383	$93	-	-	$476	$217
Total Gross Credit Exposure	**$148,720**	**$12,283**	**$42**	**$3,199**	**$164,244**	**$62,885**
Reconciliation to Statements of Financial Position						
Other Assets (not included in Standardized)	$785					**$523**
Total Assets subject to credit risk	**$149,505**					
Less Collective Allowance	$353					
Total Assets	**$149,152**			**Total RWAs**		**$63,408**
**includes replacement values*						

Standardized	Drawn Exposure	Commitments (Undrawn)	OTC Derivatives*	Other Off Balance Sheet Items	Total	RWAs
			December 31, 2010			
Bank	$93,979	-	$77	$50	$94,106	$22,212
Sovereign	-	-	-	-	-	-
Corporate	$40,021	$10,365	$63	$5,050	$55,499	$39,097
Retail Residential Mortgages	$2,713	-	-	-	$2,713	$950
Other Retail	$329	$71	-	-	$400	$175
Total Gross Credit Exposure	**$137,042**	**$10,436**	**$140**	**$5,100**	**$152,718**	**$62,434**
Reconciliation to Statements of Financial Position						
Other Assets (not included in Standardized)	$1,085					**$678**
Total Assets subject to credit risk	**$138,127**					
Less Collective Allowance	$353					
Total Assets	**$137,774**			**Total RWAs**		**$63,112**
**includes replacement values*						

Note: Statements of Financial Position for September 31, June 30, and March 31, 2011 are not audited.

- Geographic distribution of exposures broken down by major types of credit exposure:

December 31, 2011

Geographic Distibution of Exposures	Drawn Exposure	Commitments (Undrawn)	OTC Derivatives*	Other Off Balance Sheet Items	Total	(%)
Canada:	$144,306	$9,785	$23	$2,162	$156,276	91.12%
Ontario	$137,714	$5,722	$23	$2,162	$145,621	84.91%
British Columbia	$3,802	$4,053	-	-	$7,855	4.58%
Quebec	$2,790	$10	-	-	$2,800	1.63%
USA	$910	-	-	-	$910	0.53%
Other	$13,458	-	$53	$804	$14,315	8.35%
Total Gross Credit Exposure	**$158,674**	**$9,785**	**$76**	**$2,966**	**$171,501**	**100%**

**includes replacement values*

December 31, 2010

Geographic Distibution of Exposures	Drawn Exposure	Commitments (Undrawn)	OTC Derivatives*	Other Off Balance Sheet Items	Total	(%)
Canada:	$122,513	$10,436	$63	$5,050	$138,062	90.40%
Ontario	$117,844	$8,210	$63	$4,050	$130,167	85.23%
British Columbia	$4,669	$2,226	-	-	$6,895	4.51%
Quebec	-	$0	-	1,000	$1,000	0.65%
USA	$5,287	-	-	-	$5,287	3.46%
Other	$9,242	-	$77	$50	$9,369	6.13%
Total Gross Credit Exposure	**$137,042**	**$10,436**	**$140**	**$5,100**	**$152,718**	**100%**

**includes replacement values*

- Industry (and Collective allowance) distribution of exposures broken down by major types of credit exposure:

Note: At December 31, 2011 and 2010, the Bank had neither past due nor individually impaired assets. Reconciliation of changes in the allowances for impairment is presented in the *Bank's Annual Report (audited) for 2011 fiscal year*, Notes 3 "Nature and extent of risk arising from financial instruments", 4 "Exposure to credit risk", and 5 "Past due and impaired assets and allowance for impairment".

December 31, 2011

Standardized exposure by Industry	Drawn Exposure	Commitments (Undrawn)	OTC Derivatives*	Other Off Balance Sheet Items	Total	(%)	Collective Allowance
Bank	**$100,705**	**-**	**$53**	**$804**	**$101,562**	**59.22%**	**$66**
Financial Services	*$100,705*	*-*	*$53*	*$804*	*$101,562*	*59.22%*	*$66*
Corporate	**$51,006**	**$9,711**	**$23**	**$2,162**	**$62,902**	**36.68%**	**$395**
Capital Goods	*$164*	*$203*	*-*	*23*	*$390*	*0.23%*	*$1*
Communications	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Metal & Mining	*$3,160*	*$200*	*-*	*-*	*$3,360*	*1.96%*	*$25*
Real Estate	*$19,247*	*$253*	*-*	*$1,712*	*$21,212*	*12.37%*	*$165*
Resources & Basic Materials	*$646*	*$3*	*-*	*-*	*$649*	*0.38%*	*$5*
Retail & Wholesale	*$7,795*	*$1,230*	*$12*	*-*	*$9,037*	*5.27%*	*$57*
Services	*$9,066*	*$44*	*-*	*$427*	*$9,537*	*5.56%*	*$77*
Transportation	*-*	*$90*	*-*	*-*	*$90*	*0.05%*	*-*
Other	*$10,928*	*$7,688*	*$11*	*-*	*$18,627*	*10.86%*	*$65*
Retail Residential Mortgages	**$6,706**	**-**	**-**	**-**	**$6,706**	**3.91%**	**$37**
Other Retail	**$257**	**$74**	**-**	**-**	**$331**	**0.19%**	**$2**
Total Gross Credit Exposure	**$158,674**	**$9,785**	**$76**	**$2,966**	**$171,501**	**100%**	**$500**

**includes replacement values*

December 31, 2010

Standardized exposure by Industry	Drawn Exposure	Commitments (Undrawn)	OTC Derivatives*	Other Off Balance Sheet Items	Total	(%)	Collective Allowance
Bank	**$93,979**	**-**	**$77**	**$50**	**$94,106**	**61.62%**	**$35**
Financial Services	*$93,979*	*-*	*$77*	*$50*	*$94,106*	*61.62%*	*$35*
Corporate	**$40,021**	**$10,365**	**$63**	**$5,050**	**$55,499**	**36.34%**	**$302**
Capital Goods	*$190*	*$174*	*-*	*-*	*$364*	*0.24%*	*$2*
Communications	*-*	*-*	*$1*	*$2,427*	*$2,428*	*1.59%*	*-*
Metal & Mining	*$2,734*	*$636*	*-*	*-*	*$3,370*	*2.21%*	*$22*
Real Estate	*$22,511*	*$1,261*	*-*	*$56*	*$23,828*	*15.60%*	*$194*
Resources & Basic Materials	*$293*	*$205*	*-*	*-*	*$498*	*0.33%*	*$2*
Retail & Wholesale	*$4,327*	*$2,659*	*$3*	*$1,210*	*$8,199*	*5.37%*	*$32*
Services	*$1,495*	*$26*	*-*	*$357*	*$1,878*	*1.23%*	*$12*
Transportation	*$271*	*$100*	*-*	*-*	*$371*	*0.24%*	*$1*
Other	*$8,200*	*$5,304*	*$59*	*$1,000*	*$14,563*	*9.54%*	*$37*
Retail Residential Mortgages	**$2,713**	**-**	**-**	**-**	**$2,713**	**1.78%**	**$15**
Other Retail	**$329**	**$71**	**-**	**-**	**$400**	**0.26%**	**$1**
Total Gross Credit Exposure	**$137,042**	**$10,436**	**$140**	**$5,100**	**$152,718**	**100%**	**$353**

**includes replacement values*

- Residual contractual maturity breakdown of the whole portfolio broken down by major types of credit exposure:

December 31, 2011

Residual Contractual Maturity Breakdown	Drawn Exposure	Commitments (Undrawn)	OTC Derivatives*	Other Off Balance Sheet Items	Total
Within 1 year	$123,868	$9,785	$76	$2,966	$136,695
1 - 5 year	$34,806	-	-	-	$34,806
Greater than 5 year	-	-	-	-	-
No specific maturity	-	-	-	-	-
Total Gross Credit Exposure	**$158,674**	**$9,785**	**$76**	**$2,966**	**$171,501**

**includes replacement values*

December 31, 2010

Residual Contractual Maturity Breakdown	Drawn Exposure	Commitments (Undrawn)	OTC Derivatives*	Other Off Balance Sheet Items	Total
Within 1 year	$110,586	$10,436	$140	$5,100	$126,262
1 - 5 year	$26,456	-	-	-	$26,456
Greater than 5 year	-	-	-	-	-
No specific maturity	-	-	-	-	-
Total Gross Credit Exposure	**$137,042**	**$10,436**	**$140**	**$5,100**	**$152,718**

**includes replacement values*

7. Credit risk: Disclosures for Portfolios subject to the Standardized Approach

The External Credit Assessment Institution (ECAI) used by the Bank is Standard and Poor's ('S&P'). S&P Ratings are recognized by the OSFI as an eligible ECAI and are used to assess the credit quality of all exposure classes, where applicable, using the credit quality assessment scale that is set out by the OSFI in the OSFI Guideline 'Capital Adequacy Requirement (CAR) – Simpler Approaches'.

The Bank currently uses S&P to rate exposure classes (claims) for deposit taking institutions ('DTIs ') and banks and daily alerts of rating changes from S&P are used to update existing ratings as appropriate. All Bank's corporate credit exposures are unrated.

In accordance with the OSFI CAR Guideline, the risk weight applied to a claim on a bank is dependent on the credit assessment of the sovereign in the bank's country of incorporation. The bank risk weight is one notch less favorable than that which applies to its sovereign of incorporation. The following risk weights apply to claims on DTIs and banks:

Credit assessment of Sovereign	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
DTI/Bank Risk Weight *(Sovereign Credit quality step 1 plus notch)*	20%	50%	100%	100%	150%	100%

The information below sets out the distribution of standardized exposures (bank's outstandings after risk mitigation subject to standardized approach) across credit quality steps for exposure classes (claims) for DTIs and banks.

December 31, 2011

Standardized - Bank's Outstandings	Risk Weight	Drawn Exposure	Commitments (Undrawn)	OTC Derivatives*	Other Off Balance Sheet Items	Total	RWAs
Bank							
Sovereign Credit quality step 1 plus notch	*20%*	$91,799	-	$53	-	$91,852	$18,383
Sovereign Credit quality step 1 plus notch	*50%*	-	-	-	-	-	
Sovereign Credit quality step 1 plus notch	*100%*	$8,906	-	-	$804	$9,710	$9,710
Sovereign Credit quality step 1 plus notch	*150%*	-	-	-	-	-	
Unrated	*100%*	-	-	-	-	-	-
Total Bank exposure		$100,705	-	$53	$804	$101,562	$22,212
Corporate - all unrated	*100%*	$51,006	$9,711	$23	$2,162	$62,902	$50,930
Retail Residential Mortgages - all unrated	*35%*	$6,706	-	-	-	$6,706	$2,347
Other Retail - all unrated	*75%*	$257	$74	-	-	$331	$169
Total Gross Credit Exposure		**$158,674**	**$9,785**	**$76**	**$2,966**	**$171,501**	**$75,658**

**includes replacement values*

December 31, 2010							
Standardized - Bank's Outstandings	**Risk Weight**	**Drawn Exposure**	**Commitments (Undrawn)**	**OTC Derivatives***	**Other Off Balance Sheet Items**	**Total**	**RWAs**
Bank							
Sovereign Credit quality step 1 plus notch	*20%*	$89,819	-	$77	-	$89,896	$18,002
Sovereign Credit quality step 1 plus notch	*50%*	-	-	-	-	-	
Sovereign Credit quality step 1 plus notch	*100%*	$4,160	-	-	$50	$4,210	$4,210
Sovereign Credit quality step 1 plus notch	*150%*	-	-	-	-	-	-
Unrated	*100%*	-	-	-	-	-	-
Total Bank exposure		$93,979	-	$77	$50	$94,106	$22,212
Corporate - all unrated	*100%*	$40,021	$10,365	$63	$5,050	$55,499	$39,097
Retail Residential Mortgages - all unrated	*35%*	$2,713	-	-	-	$2,713	$950
Other Retail - all unrated	*75%*	$329	$71	-	-	$400	$175
Total Gross Credit Exposure		**$137,042**	**$10,436**	**$140**	**$5,100**	**$152,718**	**$62,434**

**includes replacement values*

Note: This analysis excludes corporate exposures as all corporate exposures are unrated with a risk weight of 100%. Also excluded, because the credit quality step methodology does not apply, are residential mortgages and other retail items.

8. Credit Risk Mitigation

Risk mitigation:

The Bank's approach when granting credit facilities is to do so on the basis of capacity to repay rather than place primary reliance on credit risk mitigants. Depending on a customer's standing and the type of product, facilities may be provided unsecured.

Mitigation of credit risk is nevertheless a key aspect of effective risk management and takes many forms.

The Bank's general policy is to promote the use of credit risk mitigation, justified by commercial prudence and good practice as well as capital efficiency. Specific, detailed policies cover the acceptability, structuring and terms of various types of business with regard to the availability of credit risk mitigation, for example in the form of collateral security. These policies, together with the determination of suitable valuation parameters, are subject to regular review to ensure that they are supported by empirical evidence and continue to fulfill their intended purpose.

The most common method of mitigating credit risk is to take collateral.

Collateral and other security enhancements:

The Bank holds collateral against business and personal loans in the form of mortgage interest over property, cash and term deposits, other security over assets, and guarantees. Guarantees from third parties can arise where the Bank extends facilities without the benefit of any alternative form of security.

Policies and procedures administer the protection of the Bank's position from the start of a customer relationship, for instance in requiring standard terms and conditions or specifically agreed documentation permitting the offset of credit balances against debt obligations, and through controls over the integrity, current valuation and, if necessary, realization of collateral security.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated, except when a loan is renewed or individually assessed as impaired.

An estimate of the fair value of collateral (main types) and other security enhancements held against business and personal loans is presented in the *Bank's Annual Report (audited) for 2011 fiscal year*, Note 4 "Exposure to credit risk".

Risk concentrations within the mitigation taken:

The Bank follows prudent practices to mitigate risk concentrations under the collateral obtained. The Bank's loan portfolio (consisting of personal line of credit, business line of credit, personal loan, business loan, commercial mortgage loan facility, and residential mortgage loan facility) is primarily secured by tangible securities.

Tangible securities consist of bank's first charge on commercial and / or residential property to the maximum of loan to value of 75%, bank guarantees, and cash collateral. The bank further mitigates the concentration risk by obtaining first charge on borrowers' assets (commercial loans), subordination and postponement of shareholders and related party claims (commercial loans), personal guarantees of borrowers / directors (commercial and personal loans and residential mortgages), and through comprehensive insurance on properties with the Bank noted as loss payee (commercial and residential mortgages).

As at December 31, 2011, the Bank's credit facilities secured against industrial buildings concluded to 20.9% of the grand total of primary collateral of the credit risk portfolio. However, this collateral concentration is mitigated by additional securities such as first charge on borrowers' (corporate) assets, personal guarantees of beneficial shareholders, subordination and postponement of shareholders and related party loans, and comprehensive insurance of properties with the Bank noted as loss payee.

Overall risk concentrations within the mitigations taken are considered as low given the tangible and intangible securities obtained by the Bank.

The following information gives details of the exposure (on- and / or off-balance sheet netting is not applicable) covered by eligible financial collateral and by guarantees / credit derivatives (as per Basel II requirement, the tables exclude other types of collateral mentioned above).

December 31, 2011

Standardized	Drawn Exposure	Commitments (Undrawn)	OTC Derivatives *	Other Off Balance Sheet Items	Total	Eligible Financial Collateral**	Credit Derivatives / Guarantees**
Bank	$100,705	-	$53	$804	$101,562	-	-
Sovereign	-	-	-	-	-	-	-
Corporate	$51,006	$9,711	$23	$2,162	$62,902	$4,543	$18
Retail Residential Mortgages	$6,706	-	-	-	$6,706	-	-
Other Retail	$257	$74	-	-	$331	$47	-
Total Gross Credit Exposure	**$158,674**	**$9,785**	**$76**	**$2,966**	**$171,501**	**$4,590**	**$18**

**includes replacement values*

***Exposures covered under Standardized (Simple) Approach (by cash and bank guarantees)*

December 31, 2010

Standardized	Drawn Exposure	Commitments (Undrawn)	OTC Derivatives *	Other Off Balance Sheet Items	Total	Eligible Financial Collateral**	Credit Derivatives / Guarantees**
Bank	$93,979	-	$77	$50	$94,106	-	-
Sovereign	-	-	-	-	-	-	-
Corporate	$40,021	$10,365	$63	$5,050	$55,499	$7,381	$15
Retail Residential Mortgages	$2,713	-	-	-	$2,713	-	-
Other Retail	$329	$71	-	-	$400	$137	-
Total Gross Credit Exposure	**$137,042**	**$10,436**	**$140**	**$5,100**	**$152,718**	**$7,518**	**$15**

**includes replacement values*

***Exposures covered under Standardized (Simple) Approach (by cash and bank guarantees)*

Derivatives

All of the Bank's derivatives contracts are OTC foreign exchange forward transactions that are privately negotiated between the Bank and the counterparty to the contract.

For qualitative and quantative disclosures refer to the *Bank's Annual Report (audited) for 2011 fiscal year*, Note 1(n) "Derivative instruments – accounting policy", Note 3 "Nature and extent of risk arising from financial instruments", Note 4 "Exposure to credit risk", Note 13 "Fair value of financial instruments", and Note 14 "Derivative financial instruments".

9. Market Risk and Interest Rate Risk in the Banking Book

Market risk is a risk of loss due to changes in interest and foreign currency rates. The Bank manages these risks through specific policies that are approved by the Board.

In determining its market risk capital requirements, the Bank has adopted the standardized approach. At December 31, 2011 and 2010, the Bank had immaterial levels of its open currency position and its capital requirements were nil.

For qualitative and quantative disclosures refer to the *Bank's Annual Report (audited) for 2011 fiscal year*, Note 1(a) "Financial assets and liabilities", Note 1 (f) Foreign currency transactions, Note 3 "Nature and extent of risk arising from financial instruments", and Note 12 "Interest rate sensitivity".

10. Operational Risk

The Bank has adopted the basic indicator approach in determining its operational risk capital requirement.

For qualitative and quantative disclosures refer to the Bank's Annual Report (audited) for 2011 fiscal year, Note 3(d) "Operational risk", and Table 2 "Risk-weighted assets - by risk type and regulatory capital requirements" above.

11. Basel III Considerations

The regulation of financial institutions continues to undergo significant change. In the areas of risk and capital management, considerable progress has been made in implementing the G20 governments' agenda to increase the stability and resilience of the financial system, and further major changes in regulation are foreseen.

- *Assessment of the impact of Basel III on the amount of capital "cushions"*

The management concluded that the Basel III definition and calculation of the eligible capital will not impact **unfavorably** the Bank's capital position as the Bank's capital consist of common shares issued by the Bank that meet the criteria for classification as common shares for regulatory purposes, and of retained earnings.

Refer to Table 3 for detailed information with respect to the Basel III capital components relevant to the Bank:

Table 3. Basel III Considerations

Capital Components		Paragra-phs[4]	Relevant component details	Impact assessment
Tier 1 Capital (going-concern capital)				
	a. Common Equity Tier 1	49 - 53	Common shares; Retained earnings.	The common shares and retained earnings meet the criteria for inclusion in Common Equity Tier 1. **No unfavorable impact**.
	b. Additional Tier 1	54	Currently, Bank has no qualifying instruments for inclusion in Additional Tier 1; and don't expect to have in future.	**No unfavorable impact.**
Tier 2 Capital (gone-concern capital)	General provisions/general loan-loss reserves (for banks using the Standardized Approach	60	Reserves eligible for inclusion in Tier 2 will be limited to a maximum of 1.25 percentage points of credit RWAs.	Under Basel II, the reserves are not included in Tier 2, and the Bank does not expect to include them in future. **No unfavorable impact**
Regulatory Adjustments	Deferred tax assets (DTAs)	69	DTAs are to be deducted in the calculation of Common Equity Tier 1, unlike the current approach where DTAs are subject to 100% risk weight.	The proposed approach will affect capital directly, although DTAs will not be part of RWA like under the current approach. Overall Bank's DTAs are not significant (less 50kCAD). **No unfavorable impact**

[4] Basel Committee, Basel III: A global regulatory framework for more resilient banks and banking systems, December 2010 (revised June 2011)

- *Disclosure of the Bank's preliminary Basel III capital targets using the new measures introduced by the regulator (Total Common Equity and Leverage Ratios)*

- *Minimum Common Equity Capital Ratio and Minimum Total Capital plus conservation buffer Ratio*

Like under Basel II, the Total Common Equity under Basel III will consist of common shares issued by the Bank and retained earnings, included in *Common Equity Capital,* the both ratios will be matching. The calculations of the both will be similar to those under the Basel II.

Taking in the account the Bank's current size, risk profile, and a level of capitalization [Basel II ratio is app. 20%], the management believes that Bank will exceed the regulatory Basel III capital targets during the transitional period of 2013-18 and at the date of full implementation:

- 7% minimum of *Common Equity Tier 1 Capital Ratio*
- 10.5% minimum of *Total Capital plus conservation buffer, including the maximum [2.5%] countercyclical buffer requirement*).

Management believes that the transition to the Basel III [starting 2013] will not significantly impact the Bank's ICAAP requirements with respect to capital injection needs, as the Bank's ICAAP evaluation and business planning already employ a higher target minimum of 12% for the ICAAP BCAR. No additional capital to cover Basel III requirements is considered.

- *Leverage Ratio*

Unlike in ACM calculations under the OSFI's Basel II framework, all off-balance sheet items should be included in calculations for Leverage ratio; the off-balance sheet exposure is expected to increase app. by 6-10%. Even so the Leverage ratio, as per management preliminary view, will exceed 3% of minimum. The Bank expects further OSFI guidelines with respect to future calculation of Leverage ratio.

As a part of the Basel III transitional capital and business planning, the Bank is considering the *Minimum Common Equity Capital Ratio, Minimum Total Capital plus conservation buffer Ratio, and* Leverage *Ratio* in its three-year plan and budget [starting 2012].

Note: The information presented in this Section may be revised to validate the disclosures in future.

[End of the document]