Financial Statements
(In Canadian dollars)

HABIB CANADIAN BANK

(A WHOLLY OWNED SUBSIDIARY OF
HABIB BANK AG ZURICH)

Year ended December 31, 2016

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Habib Canadian Bank

We have audited the accompanying financial statements of Habib Canadian Bank, which comprise the statement of financial position as at December 31, 2016, the statements of comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

KPMG

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Habib Canadian Bank as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 30, 2017
Toronto, Canada

HABIB CANADIAN BANK

Statement of Financial Position
(In thousands of Canadian dollars)

December 31, 2016, with comparative information for 2015

	2016	2015
Cash and cash equivalents:		
Cash	$ 212	$ 395
Interest-bearing deposits with banks	76,918	90,932
Government of Canada treasury bill	9,995	9,996
	87,125	101,323
Loans and advances (notes 4 and 5)	106,406	77,583
Other:		
Customers' liability under acceptances	360	154
Derivative assets (note 14)	18	77
Office equipment and leasehold improvements (note 6)	1,135	247
Current tax recoverable	96	55
Deferred tax assets (note 8)	407	209
Other assets	500	421
	2,516	1,163
	$ 196,047	$ 180,069

Liabilities and Shareholder's Equity

	2016	2015
Liabilities:		
Deposits (note 7):		
Individuals	$ 73,587	$ 76,278
Businesses	75,927	51,191
Deposit-taking institutions (note 10)	12,631	18,979
	162,145	146,448
Other:		
Acceptances	360	154
Derivative liabilities (note 14)	14	75
Other liabilities	2,550	1,557
	2,924	1,786
Shareholder's equity (100% attributable to Bank's owner):		
Capital stock:		
Issued and fully paid:		
3,000,000 common shares	30,000	30,000
Retained earnings	978	1,835
	30,978	31,835
Commitments and contingent liabilities (note 11)		
	$ 196,047	$ 180,069

See accompanying notes to financial statements.

On behalf of the Board:

_____________ Director _____________ Director

HABIB CANADIAN BANK

Statement of Comprehensive Income
(In thousands of Canadian dollars)

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Interest income:		
Interest-bearing deposits with banks	$ 426	$ 544
Interest from Government of Canada treasury bill	45	77
Loans	4,035	3,694
	4,506	4,315
Interest expense:		
Deposits	1,098	899
Net interest income	3,408	3,416
Provision for credit losses (note 5(c))	711	10
Net interest income after provision for credit losses	2,697	3,406
Other income	1,702	1,677
Net interest and other income	4,399	5,083
Non-interest expenses:		
Salaries and staff benefits	3,354	2,976
Premises and equipment, including amortization	540	401
Other	1,663	1,618
	5,557	4,995
Income (loss) before income taxes	(1,158)	88
Income tax expense (recovery) (note 8)	(301)	4
Total comprehensive income (loss) (100% attributable to Bank's owner) for the year	$ (857)	$ 84

See accompanying notes to financial statements.

HABIB CANADIAN BANK

Statement of Changes in Shareholder's Equity
(In thousands of Canadian dollars)

Year ended December 31, 2016, with comparative information for 2015

Share capital (100% attributable to Bank's owner), January 1, 2015	$ 30,000
Increase in share capital during the year 2015	–
Share capital (100% attributable to Bank's owner), December 31, 2015	30,000
Retained earnings, beginning of year	1,751
Total comprehensive income for the year	84
Retained earnings, end of year	1,835
Shareholder's equity (100% attributable to Bank's owner), December 31, 2015	$ 31,835
Share capital (100% attributable to Bank's owner), January 1, 2016	$ 30,000
Increase in share capital during the year 2016	–
Share capital (100% attributable to Bank's owner), December 31, 2016	30,000
Retained earnings, beginning of year	1,835
Total comprehensive income for the year	(857)
Retained earnings, end of year	978
Shareholder's equity (100% attributable to Bank's owner), December 31, 2016	$ 30,978

See accompanying notes to financial statements.

HABIB CANADIAN BANK

Statement of Cash Flows
(In thousands of Canadian dollars)

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash flows from (used in) operating activities:		
Total comprehensive income (loss) for the year	$ (857)	$ 84
Adjustments:		
Depreciation	146	62
Provision for credit losses	711	10
Net interest income	(3,345)	(3,814)
Income taxes	(301)	4
Gain on Government of Canada treasury bill	(45)	(77)
Change in derivative assets	59	(50)
Change in loans and advances	(29,519)	(2,805)
Change in other assets	(79)	(123)
Change in derivative liabilities	(61)	50
Change in deposits from individuals	(2,691)	21,092
Change in deposits from businesses	24,736	4,244
Change in deposits from deposit-taking institutions	(6,348)	399
Change in other liabilities and provisions	993	700
Interest received	4,345	4,330
Interest paid	(1,000)	(516)
Income taxes recovered (paid)	55	113
Net cash from (used in) operating activities	(13,201)	23,703
Cash flows from (used in) investing activities:		
Interest-bearing deposits with banks	14,014	(23,248)
Government of Canada treasury bill	39	17
Acquisition of office equipment and leasehold improvements	(1,035)	(230)
Net cash from (used in) investing activities	13,018	(23,461)
Net increase (decrease) in cash	(183)	242
Cash, beginning of year	395	153
Cash, end of year	$ 212	$ 395

See accompanying notes to financial statements.

Habib Canadian Bank (the "Bank") is a 100% owned subsidiary of Habib Bank AG Zurich, Switzerland (the "Parent"), and is licensed to operate as a bank in Canada with full banking powers under the Bank Act.

The address of the Bank's registered office is 918 Dundas Street East, Suite 1-B, Mississauga, Ontario, L4Y 4H9. The Bank was incorporated on April 5, 2000 and commenced operations on March 22, 2001.

The address of the Bank's Parent is Weinbergstrasse 59 P.O. Box 225, 8042 Zurich, Switzerland.

The financial statements of the Bank as at and for the year ended December 31, 2016 comprise the Bank as a single economic unit - the Bank has no subsidiaries, associates and other entities to be consolidated in the Bank's financial statements.

The Bank primarily is involved in corporate and retail banking, and in providing trade finance services.

Basis of preparation:

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board ("IASB").

The financial statements were authorized for issue by the Board of Directors on March 30, 2017.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis, except for derivative financial instruments, which are measured at fair value.

(c) Functional and presentation currency:

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

Basis of preparation (continued):

(d) Use of estimates and judgements:

The preparation of the 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 year in which the estimate is revised and in any future years 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 note 1(a) (iii), (vi), (vii) and 1(i).

1. Significant accounting policies:

The significant accounting policies used in the preparation of these financial statements are summarized below.

The accounting policies set out below have been applied consistently to all years presented in these financial statements:

(a) Financial assets and financial liabilities:

(i) Recognition:

The Bank initially recognizes loans and advances, and deposits on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

1. Significant accounting policies (continued):

(ii) Classification:

See accounting policies 1(b), (c), (d), (i), (k) and (o).

(iii) Derecognition:

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Bank derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

(iv) Offsetting:

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legally enforceable right to set off the amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions, such as in the Bank's trading activity.

1. Significant accounting policies (continued):

(v) Amortized cost measurement:

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's-length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's-length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

(vii) Identification and measurement of impairment:

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

1. Significant accounting policies (continued):

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets, such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Bank considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances are assessed for specific impairment. All individually significant loans and advances found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The Bank would write off certain loans and advances if and when they are determined to be uncollectible.

1. Significant accounting policies (continued):

(b) Cash and cash equivalents:

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(c) Loans and advances:

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, except when the Bank chooses to carry the loans and advances at fair value through profit or loss.

(d) Acceptances:

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on 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 offsetting asset of the same amount. Fees earned are reported as other income.

(e) Office equipment and leasehold improvements:

(i) Recognition and measurement:

Office equipment and leasehold improvements represent items of property and equipment that are measured at cost less accumulated depreciation and accumulated impairment losses.

1. Significant accounting policies (continued):

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognized, net within other income in profit or loss.

(ii) Subsequent costs:

The cost of replacing a part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation:

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative years are as follows:

IT equipment	4 years
Fixtures and fittings	4 - 7 years
Automobile	5 years

Depreciation methods, useful lives and residual values are reassessed at each financial year end and adjusted, if appropriate.

1. Significant accounting policies (continued):

(f) Foreign currency transactions:

Transactions in foreign currencies are translated into Canadian dollars at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(g) Impairment of non-financial assets:

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

(h) Deposits:

Deposits are the Bank's main sources of debt funding. Deposits are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the Bank chooses to carry the liabilities at fair value through profit or loss.

1. Significant accounting policies (continued):

(i) 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, where appropriate, the risks specific to the liability.

A provision for restructuring is recognized when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

(j) Financial guarantees:

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognized initially at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.

(k) Employee benefits - defined contribution plans:

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss when they are due in respect of service rendered before the end of the reporting year. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the reporting year in which the employees render the service are discounted to their present value at the reporting date.

1. **Significant accounting policies (continued):**

(l) Income tax expense:

Income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or 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 the 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 against current tax 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.

Additional income taxes that arise from the distribution of dividends by the Bank are recognized at the same time as the liability to pay the related dividend is recognized.

(m) Lease payments:

Payments made under operating leases are recognized in profit or loss 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.

1. Significant accounting policies (continued):

(n) Derivative instruments:

Derivatives are financial instruments whose value derives largely from the price, price fluctuations and price expectations of an underlying instrument (e.g., share, bond, foreign exchange or index). Derivatives may include swaps, options and futures.

Derivative contracts used by the Bank include forward contracts. In the normal course of business, the Bank enters into derivative transactions for trading and/or risk management purposes. The Bank's objectives in using derivative instruments are to meet customers' risk management needs to manage the Bank's exposure to risks.

In accordance with the Bank's accounting policy relating to derivatives, all derivatives are carried at fair value in the statement of financial position regardless of whether they are held for trading or non-trading purposes.

(o) Interest income and expense:

Interest income and expense are recognized in profit or loss 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.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

1. Significant accounting policies (continued):

Fair value changes on derivatives held for risk management purposes, and other financial assets and liabilities carried at fair value through profit or loss are presented in net income from other financial instruments at fair value through profit or loss in the statement of comprehensive income.

(p) Fees and commission:

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the drawdown of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

2. Changes in accounting policies:

The Bank has adopted Offsetting Financial Assets and Liabilities (Amendments to International Accounting Standard ("IAS") 32 ("IAS 32")), with a date of initial application of January 1, 2014. As a result of the amendments to IAS 32, the Bank has changed its accounting policy for offsetting financial assets and financial liabilities. The amendments clarify when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The change did not have a material impact on the Bank's financial statements.

2. Changes in accounting policies (continued):

Standards issued but not yet mandatorily effective:

New international financial reporting and related interpretations standards, amendments to existing standards and interpretations not yet mandatorily effective for the year ended December 31, 2016 have not been applied in preparing these financial statements. This section contains standards and interpretations issued, which will be applicable to the Bank at a future date. The Bank intends to adopt those standards when they become effective:

(a) IFRS 9, Financial Instruments ("IFRS 9"):

In July 2014, the IASB published an amended version of IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement, and includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and a new general hedge accounting model. Financial asset classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. IFRS 9 also introduces a single impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected credit losses if certain criteria are met. The new model for hedge accounting aligns hedge accounting with risk management activities. The standard is effective for the Bank's fiscal year beginning January 1, 2018. The financial reporting impact of adopting IFRS 9 is being assessed.

(b) IFRS 15, Revenue from Contracts with Customers ("IFRS 15"):

In May 2014, the IASB issued a new standard that revises previous guidance on revenue recognition, from sources other than interest and investment income, which are unaffected. The financial reporting impact of adopting IFRS 15 is being assessed. The new standard is effective for years beginning on or after January 1, 2018.

(c) IFRS 16, Leases ("IFRS 16"):

IFRS 16 was issued on January 13, 2016. The new standard will replace existing lease guidance in IFRS and related interpretations, and requires companies to bring most leases on-balance sheet. The financial reporting impact of adopting IFRS 16 is being assessed. The new standard is effective for years beginning on or after January 1, 2019.

3. Nature and extent of risk arising from financial instruments:

Risk management framework overview:

The primary goal of risk management at the Bank is to minimize risk. Risk is anything that will cause a desired objective not to be achieved. Risk, in varying degrees, is present in virtually all business activities of financial institutions and the Bank recognizes that it is an unavoidable consequence of doing business. The key objectives of the risk management process are to ensure that the outcome of risk-taking activities is within the Bank's risk tolerance, and that there is an appropriate balance between risk and reward. Accordingly, the Bank does not seek to avoid risk, but to manage it in a controlled manner commensurate with the expected reward.

The Board of Directors (the "Board") establishes a conservative culture with respect to the Bank's overall risk appetite. The Board has overall responsibility for risk management and reviews and approves risk management strategies, policies, standards and key limits. The Board ensures there are sufficient and qualified risk management resources across the Bank to meet the risk management objectives. The Board, directly or through its committees, the Audit Committee and Conduct Review and Risk Management Committee, receives regular updates on the key risks of the Bank.

Risks are managed by the senior management of the Bank within the policies and limits established by the Board. Senior management plays a key role in the risk management process and is responsible for implementation of the policies and establishing a control environment by developing processes to monitor and measure risk and ensure compliance with laws and regulations.

The Internal Audit of the Parent independently monitors and reports to senior management and the Board on the effectiveness of risk management policies, procedures and internal controls. The internal auditors have unrestricted access to the Bank's staff, information and records and to the Audit Committee. The Bank's enterprise risk framework and risk management processes are reviewed by the Internal Auditor annually.

There was no significant change in the risk management framework from the previous year.

3. Nature and extent of risk arising from financial instruments (continued):

The Bank is exposed to four major types of risk: credit, liquidity, market (all from its use of financial instruments) and operational as follows:

(a) Credit risk:

Credit risk is a risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Bank.

The Bank manages credit risk through specific credit policies that are approved by the Board. These policies set out the procedures for identifying and measuring credit risk, evaluating and approving credit, ongoing monitoring and managing such risk.

(b) Liquidity risk:

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows.

The Bank manages liquidity risk through specific policies that are approved by the Board. The Bank is conservative in its liquidity policy and constantly maintains a high level of liquidity by keeping substantial balances in liquid assets and in short-term interbank placements. To ensure that the Bank has sufficient liquid assets on hand, the key liquidity risk management tools include the use of an automated tool for measuring any mismatch in the liquidity positions to determine funding requirements, monitoring the level of core and large deposits, control of concentration limits, and the computation of liquidity requirements under stressed conditions on a regular basis.

(In thousands of Canadian dollars)

3. Nature and extent of risk arising from financial instruments (continued):

The tables below present the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the tables are the contractual undiscounted cash flow.

2016	Up to 1 month	1 - 3 months	3 months to 1 year	Over 1 year	No specific maturity	Total
Assets						
Cash resources	$ 74,503	$ 1,450	$ 1,204	$ –	$ –	$ 77,157
Government of Canada treasury bill	9,995	–	–	–	–	9,995
Loans	13,639	6,447	11,570	76,744	–	108,400
Allowance for impairment	–	–	–	–	(2,021)	(2,021)
Other	–	–	–	–	2,516	2,516
Total	98,137	7,897	12,774	76,744	495	196,047
Liabilities and Shareholder's Equity						
Liabilities:						
Deposits	98,913	5,403	33,136	24,693	–	162,145
Other	–	–	–	–	2,924	2,924
Shareholder's equity	–	–	–	–	30,978	30,978
Total	98,913	5,403	33,136	24,693	33,902	196,047
Total gap	$ (776)	$ 2,494	$ (20,362)	$ 52,051	$ (33,407)	$ –

2015	Up to 1 month	1 - 3 months	3 months to 1 year	Over 1 year	No specific maturity	Total
Assets						
Cash resources	$ 90,324	$ 555	$ 459	$ –	$ –	$ 91,338
Government of Canada treasury bill	9,996	–	–	–	–	9,996
Loans	8,582	9,876	12,624	47,800	–	78,882
Allowance for impairment	–	–	–	–	(1,310)	(1,310)
Other	–	–	–	–	1,163	1,163
Total	108,902	10,431	13,083	47,800	(147)	180,069
Liabilities and Shareholder's Equity						
Liabilities:						
Deposits	95,770	5,105	34,129	11,444	–	146,448
Other	–	–	–	–	1,786	1,786
Shareholder's equity	–	–	–	–	31,835	31,835
Total	95,770	5,105	34,129	11,444	33,621	180,069
Total gap	$ 13,132	$ 5,326	$ (21,046)	$ 36,356	$ (33,768)	$ –

3. Nature and extent of risk arising from financial instruments (continued):

(c) Market risk:

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.

Interest rate risk arises from the impact that changes in interest rates may have on income due to the mismatch between variable rate asset and liability positions. The Bank does a maturity mapping for liquidity and a scenario analysis for interest rate risk, whereby the impact of certain predefined interest rate movements within each maturity bracket are analyzed and compared to a benchmark.

Foreign currency risk is the risk of loss due to changes in foreign exchange rates. Foreign exchange activities are customer-related and the Bank does not execute foreign exchange transactions on its own account, except to hedge or cover open positions.

(d) Operational risk:

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

The Bank has established policies that have been approved by the Board to manage and control this risk. Operations and the handling of day-to-day risks are the responsibility of management. In this regard, detailed operating procedures have been developed with built-in checks and balances.

3. Nature and extent of risk arising from financial instruments (continued):

(e) Capital management:

Regulatory capital for the Bank is regulated pursuant to guidelines issued by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). Beginning in 2013, OSFI's regulatory capital guidelines under Basel III allow for two tiers of capital. The Bank's Common Equity Tier 1 ("CET1") capital includes common shares, retained earnings and accumulated other comprehensive income. The Bank currently does not hold any additional Tier 1 or Tier 2 capital instruments. Therefore, the Bank's CET1 is equal to its Tier 1 and Total regulatory capital, and are calculated and reported under IFRSs.

Regulatory ratios are calculated by dividing CET1, 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 included an amount for the market risk exposure associated with trading portfolios. In addition, OSFI formally established risk-based capital targets for deposit-taking institutions: a target CET1 ratio of 7% and a target Total capital ratio of 10.5%.

In 2014, OSFI issued a "Leverage Requirements Guideline", which replaced the OSFI Assets-to-Capital Multiple (ACM) with the Basel III Leverage ratio, beginning in the first quarter of 2015. The leverage ratio is defined as Tier 1 capital divided by leverage ratio exposure. The leverage ratio exposure is the sum of (i) on-balance sheet exposures; (ii) derivative exposures; (iii) securities financing transaction exposures and (iv) off-balance sheet items. Canadian banks are required to maintain a leverage ratio that meets or exceeds a minimum leverage ratio level prescribed by OSFI at all times.

The Bank's CET1, Tier 1 and Total capital and ratios for the year ended December 31, 2016 and comparative information for the prior year have been calculated using Basel III (Standardized Approach). The Bank has complied with all regulatory-imposed capital requirements at year end.

3. Nature and extent of risk arising from financial instruments (continued):

(f) Internal Capital Adequacy Assessment Process:

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 ICAAP 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.

(In thousands of Canadian dollars)

4. Exposure to credit risk:

An analysis of the Bank's loans and advances to customers, by category and concentration by location of ultimate risk, is as follows:

	2016	2015
Loans and advances at amortized cost:		
Canada:		
Commercial mortgages	$ 52,844	$ 39,043
Residential mortgages	21,378	14,603
Business loans	18,031	11,379
Personal loans	5,458	3,477
	97,711	68,502
Other:		
Residential mortgages	2,211	2,291
Business loans	8,479	8,089
	10,690	10,380
	108,401	78,882
Allowance for credit losses - collective	795	599
Allowance for credit losses - specific	1,200	700
	1,995	1,299
Total loans	$ 106,406	$ 77,583

As at December 31, 2016, total loans and advances include $14,071 (2015 - $11,511) denominated in foreign currencies.

(In thousands of Canadian dollars)

4. Exposure to credit risk (continued):

An analysis of the Bank's exposure to credit risk by sector and classes of financial instruments is as follows:

	Lending-related and other loans			Trading-related	2016	2015
	Outstanding	Undrawn commitments	Other[(1)]	Over-the-counter ("OTC") derivatives[(2)]	Total exposure[(3)]	Total exposure[(3)]
Personal						
Residential mortgages	$ 23,589	$ 4,314	$ –	$ –	$ 27,903	$ 21,772
Personal loans	5,458	226	–	–	5,684	3,813
Total	29,047	4,540	–	–	33,587	25,585
Business						
Steel wholesale	10,902	919	211	12	12,044	9,804
Real estate	42,172	929	2,877	–	45,978	29,993
Clothing and textile wholesale	4,247	2,004	–	–	6,251	5,583
Hospitality and lodging	14,317	175	–	–	14,492	13,416
Other	7,716	1,384	870	6	9,976	11,126
Total	79,354	5,411	3,958	18	88,741	69,922
Total exposure	$ 108,401	$ 9,951	$ 3,958	$ 18	$ 122,328	$ 95,507

(1) Includes contingent liabilities, such as letters of credit and guarantees.

(2) Includes foreign exchange forward replacement values.

(3) Total exposure represents exposure at default, which is expected gross exposure upon the default of an obligor. This amount is before collective and specific allowances and does not reflect the impact of credit risk mitigation.

(In thousands of Canadian dollars)

4. Exposure to credit risk (continued):

Collateral and other security enhancements:

The Bank holds collateral against business and personal loans in the form of mortgage interest over property, other security over assets, and guarantees. 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 and other security enhancements held against business and personal loans is shown below:

	Loan outstanding		Collateral security	
	2016	2015	2016	2015
Property	$ 89,850	$ 57,848	$ 192,174	$ 132,658
Cash and term deposits	4,899	3,995	4,899	3,995
Bank guarantees	–	1,248	–	1,248
Other	12,603	12,069	12,603	12,069
Unsecured	1,049	3,722	–	–
Total	$ 108,401	$ 78,882	$ 209,676	$ 149,970

5. Past due and impaired assets and allowance for impairment:

(a) At December 31, 2016, the Bank had individually impaired loans of $6,639 (2015 - $4,852). As at December 31, 2016, the Bank had past due loans of $6,853 (2015 - nil).

(b) Key sources of estimation uncertainty in determining the allowances for impairment:

Assets accounted for at amortized cost are evaluated for impairment on a basis described in accounting policy (note 1).

(In thousands of Canadian dollars)

5. Past due and impaired assets and allowance for impairment (continued):

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently reviewed by the Chief Risk Officer.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors, such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances. The methodology and assumptions used in determining the allowances are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(c) The Bank's allowance for credit losses is as follows:

			2016	2015
	Specific allowance	Collective allowance	Total	Total
Balance, beginning of year	$ 700	$ 610	$ 1,310	$ 1,300
Provision for credit losses	500	211	711	10
Balance, end of year	$ 1,200	$ 821	$ 2,021	$ 1,310

(In thousands of Canadian dollars)

5. Past due and impaired assets and allowance for impairment (continued):

An analysis of the allowance for impairment by loan category is as follows:

			2016	2015
	Specific allowance	Collective allowance	Total	Total
Commercial mortgages	$ 1,200	$ 446	$ 1,646	$ 1,033
Residential mortgages	–	119	119	88
Business loans	–	202	202	150
Personal loans	–	28	28	28
Banker's acceptances[i]	–	26	26	11
Balance, end of year	$ 1,200	$ 821	$ 2,021	$ 1,310

[i]Bankers' acceptance are included in the Bank's cash and cash equivalents.

(d) Loans with renegotiated terms:

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider.

At December 31, 2016 and 2015, the Bank had no loans with renegotiated terms.

6. Office equipment and leasehold improvements:

			2016	2015
	Cost	Accumulated depreciation	Net book value	Net book value
Office equipment and leasehold improvements	$ 2,181	$ 1,046	$ 1,135	$ 247

Depreciation for the year amounted to $146 (2015 - $62).

(In thousands of Canadian dollars)

6. Office equipment and leasehold improvements (continued):

	Office equipment	Leasehold improvements	Total
Cost			
Balance, January 1, 2015	$ 694	$ 357	$ 1,051
Acquisitions	187	43	230
Balance, December 31, 2015	$ 881	$ 400	$ 1,281
Balance, January 1, 2016	$ 881	$ 400	$ 1,281
Acquisitions	726	308	1,034
Write off	(134)	–	(134)
Balance, December 31, 2016	$ 1,473	$ 708	$ 2,181
Depreciation and impairment losses			
Balance, January 1, 2015	$ 615	$ 357	$ 972
Depreciation	57	5	62
Balance, December 31, 2015	$ 672	$ 362	$ 1,034
Balance, January 1, 2016	$ 672	$ 362	$ 1,034
Depreciation	101	45	146
Write off	(134)	–	(134)
Balance, December 31, 2016	$ 639	$ 407	$ 1,046
Carrying amounts			
Balance, December 31, 2015	$ 209	$ 38	$ 247
Balance, December 31, 2016	834	301	1,135

The Bank has no capitalized borrowing costs related to the acquisition of equipment or related to internal development. The Bank has no intangible assets.

(In thousands of Canadian dollars)

7. Deposits:

The following is an analysis of the Bank's deposits by category:

	Payable on demand	Payable after notice	Payable on fixed date	2016 Total	2015 Total
Individuals	$ 34,199	$ 3,902	$ 35,486	$ 73,587	$ 76,278
Businesses	47,330	–	28,597	75,927	51,191
Deposit-taking institutions	8,631	–	4,000	12,631	18,979
Total deposits	$ 90,160	$ 3,902	$ 68,083	$ 162,145	$ 146,448

As at December 31, 2016, total deposits include $43,281 (2015 - $39,201) denominated in foreign currencies.

8. Income taxes:

(a) Income tax expense (recovery):

	2016	2015
Current tax expense (recovery)	$ (103)	$ 27
Deferred tax recovery	(198)	(23)
Total income tax expense (recovery)	$ (301)	$ 4

(In thousands of Canadian dollars)

8. Income taxes (continued):

Reconciliation of effective tax rate:

	2016	2015
Income (loss) before income taxes	$ (1,158)	$ 88
Income tax using the statutory tax rate of 26.5% (2015 - 26.5%)	$ (307)	$ 23
Non-deductible expenses	2	15
Change in unrecognized deferred tax assets	–	(51)
Other	4	17
Total income tax expense (recovery)	$ (301)	$ 4

(b) Deferred tax assets and liabilities:

Recognized deferred tax assets and liabilities:

Deferred tax assets are attributable to the following:

	2016	2015
Non-capital loss carry forwards	$ 167	$ –
Office equipment and leasehold improvements	(37)	7
Donations	5	–
Allowance for impairment	250	180
Deferred income	22	22
	$ 407	$ 209

(In thousands of Canadian dollars)

9. Segmented information:

(a) An analysis of the Bank's aggregate outstanding interest-bearing deposits with banks, loans and acceptances by geographic segment, on the basis of the location of ultimate risk, is as follows:

	2016	2015
Canada	$ 172,671	$ 166,741
United Kingdom	5,081	3,676
United States	10,395	4,541
Other	5,531	3,706
Total	$ 193,678	$ 178,664

(b) Total interest income, based on country of residence of the borrower, is as follows:

	2016	2015
Canada	$ 4,393	$ 4,227
United Kingdom	8	11
United States	21	1
Other	84	76
Total	$ 4,506	$ 4,315

10. Related party transactions:

In the normal course of business, the Bank enters into transactions with its key management personnel (directors and officers and their interests), the Parent and companies under common control.

As at December 31, 2016, deposits payable to the Bank's Parent and companies under common control amounted to $12,521 (2015 - $18,675) and deposits receivable amounted to $5,117 (2015 - $3,731). Interest of $47 (2015 - $67) was paid to the Bank's Parent and companies under common control in respect of deposits payable, and interest of $7 (2015 - $10) was received in respect of deposits receivable. Interest rates paid on deposits from related parties were at the rates that would be charged in an arm's-length transaction.

10. Related party transactions (continued):

The Bank has loans to directors and officers and their interests in the amount of $1,238 as at December 31, 2016 (2015 - $1,339). The mortgages and secured loans granted are secured over property of the respective borrowers. Interest of $52 (2015 - $54) was received in respect to these loans. Interest rates charged on balances outstanding from related parties were at the rates that would be charged in an arm's-length transaction. No impairment losses have been recorded against balances outstanding during the year with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at year end.

The Parent has guaranteed certain loans of the Bank amounting to nil (2015 - $1,248) at no cost to the Bank. Management fees of $465 (2015 - $475) were paid by the Bank to its Parent.

Key management personnel compensation for the year was $1,334 (2015 - $1,315). This includes all short- and long-term wages and benefits, including directors' fees and the amount allocated to the Bank by the Parent.

11. Commitments and contingent liabilities:

Credit commitments:

In the normal course of business, the Bank enters into various commitments to meet the credit requirements of its customers.

Such commitments at December 31, 2016 include:

(a) $3,958 (2015 - $5,356) for financial guarantees, documentary and commercial letters of credit and standby letters of credit, which require the Bank to honour drafts presented by third parties upon completion of specific activities or make payments where the customer is unable to meet financial obligations. In the event of a call on these commitments, the Bank has recourse against its customers; and

(b) $9,951 (2015 - $11,192) for commitments to extend credit, which represent undertakings to make credit available in the form of loans or other financings, subject to certain conditions.

(In thousands of Canadian dollars)

12. Interest rate sensitivity:

The following table summarizes statement of financial position assets, liabilities and shareholder's equity to arrive at the Bank's interest rate gap based on the earlier of contractual repricing and maturity dates:

						2016	2015
	Floating rate	Within 3 months	3 months to 1 year	1 - 5 years	Non-rate sensitive	Total	Total
Assets							
Cash resources	$ 41,803	$ 28,293	$ –	$ –	$ 7,034	$ 77,130	$ 91,338
	0.59%	0.83%	–	–	–	0.62%	0.68%
Government of Canada treasury bill	–	9,995	–	–	–	9,995	9,996
	–	0.51%	–	–	–	0.51%	1.00%
Loans	104,039	407		3,953	2	108,401	78,882
	4.03%	4.75%	–	3.56%	–	4.00%	3.95%
Allowance for impairment	–	–	–	–	(1,995)	(1,995)	(1,310)
Other	–		–	–	2,516	2,516	1,163
Total	145,842	38,695	–	3,953	7,557	196,047	180,069
Liabilities and Shareholder's Equity							
Liabilities:							
Deposits	3,902	26,010	29,063	13,010	90,160	162,145	146,448
	0.93%	0.45%	1.52%	2.78%	–	0.59%	0.67%
Other	–	–	–	–	2,924	2,924	1,786
	3,902	26,010	29,063	13,010	93,084	165,069	148,234
Shareholder's equity	–	–	–	–	30,978	30,978	31,835
Total	3,902	26,010	29,063	13,010	124,062	196,047	180,069
Total gap	$ 141,940	$ 12,685	$ (29,063)	$ (9,057)	$ (116,505)	$ –	$ –

(In thousands of Canadian dollars)

12. Interest rate sensitivity (continued):

As at December 31, 2016, a one-percentage-point change in the market interest rate over a one-year period would have an impact of approximately $331 on net interest income over the next year.

13. Fair values of financial instruments:

The amounts set out in the table below represent the fair values of the Bank's on-balance sheet financial instruments using the valuation method and assumptions described below. The amounts do not include the fair value of underlying assets and liabilities that are not considered financial instruments, such as office equipment.

The estimated fair value amounts are designed to approximate amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. However, many of the Bank's financial instruments lack an available trading market. Therefore, fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Because of the estimation process and the need to use judgement, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

			2016			2015
	Fair value	Carrying value	Fair value over carrying value	Fair value	Carrying value	Fair value over carrying value
Assets						
Cash resources	$ 87,124	$ 87,125	$ (1)	$ 101,320	$ 101,323	$ (3)
Loans and advances	106,406	106,406	–	77,583	77,583	–
Derivative assets	18	18	–	77	77	–
Other	1,363	1,363	–	839	839	–
Liabilities						
Deposits	162,145	162,145	–	146,448	146,448	–
Derivative liabilities	14	14	–	75	75	–
Other	2,910	2,910	–	1,711	1,711	–

13. Fair values of financial instruments (continued):

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

Due to their short-term nature, the carrying values of certain on-balance sheet financial instruments are assumed to approximate their fair values. These financial instruments include cash resources, other assets, deposits 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 carrying value as the interest rates on these loans automatically reprice to market.

(b) For short-term fixed-rate loans, fair value is assumed to equal carrying value.

(c) 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 Bank follows a fair value hierarchy to categorize the inputs used to measure fair value of financial instruments shown in the table below. The fair value hierarchy is based on quoted prices in active markets (Level 1), models using inputs other than quoted prices (Level 2), or models using inputs that are not based on observable market data (Level 3).

Fair values of financial instruments:

	Derivative assets		Derivative liabilities	
	2016	2015	2016	2015
Valued using internal models (with observable inputs)	$ 18	$ 77	$ 14	$ 75

(In thousands of Canadian dollars)

14. Derivative financial instruments:

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

Foreign exchange forwards are contracts in which one party contracts with another to exchange a specified amount of one currency for a specified amount of a second currency at a future date or range of dates.

All derivative instruments were originated in Canada with maturities of six months or less.

The Bank does not engage in other types of derivative products.

The tables below provide an analysis of the Bank's derivative portfolio and related credit exposure:

(a) Fair value of derivative financial instruments:

	2016		2015	
	Favourable	Unfavourable	Favourable	Unfavourable
Foreign exchange forward contracts	$ 18	$ 14	$ 77	$ 75

(b) Notional principal and credit exposure:

	Foreign exchange forward contracts	
	2016	2015
Notional amount	$ 5,994	$ 8,842
Current replacement cost	18	77
Credit risk equivalent	72	165
Risk-weighted balance	46	116

14. Derivative financial instruments (continued):

The notional amount is not recorded as an asset or liability as it represents the face amount of the contract to which a rate or price is applied to determine the amount of cash flows to be exchanged. Notional principal amounts do not represent the potential gain or loss associated with market risk and are not indicative of the credit risk associated with derivative financial instruments.

Current replacement cost represents the cost of replacing all contracts that have a favourable fair value, using current market rates. It represents in effect the unrealized gains on the Bank's derivative instruments. Replacement cost disclosed in the table above represents the net amount of the asset and liability to a specific counterparty where the Bank has a legally enforceable right to offset the amount owed to the Bank with the amount owed by the Bank and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Credit risk equivalent represents the total replacement cost plus an amount representing the potential future credit exposure, as outlined in the Capital Adequacy Guideline of the Superintendent.

Risk-weighted balance represents the credit risk equivalent, weighted based on the creditworthiness of the counterparty, as prescribed by OSFI.

(In thousands of Canadian dollars)

15. Capital position:

The table below provides a summary of the regulatory capital and ratios for the year ended December 31, 2016 and comparative information for the prior year. The Bank is in compliance with the imposed capital requirements to which it is subject:

	2016	2015
Capital structure and ratios:		
CET1 capital:		
Common shares	$ 30,000	$ 30,000
Retained earnings	978	1,835
CET1 capital	30,978	31,835
Tier 1 capital	30,978	31,835
Total (eligible) capital	30,978	31,835
Risk-weighted assets	124,635	97,863
Capital ratios:		
CET1 Ratio	24.85%	32.53%
Tier 1 Ratio	24.85%	32.53%
Total Ratio	24.85%	32.53%
Leverage ratio exposure	$ 201,653	$ 186,535
Leverage ratio	15.36%	17.07%

16. Employee benefit plans:

The Bank has a defined contribution pension plan for eligible employees. Current service pension costs are expensed as funded. The total pension expense for the year was $160 (2015 - $143).