



**Mega International Commercial Bank (Canada)**

**Basel Pillar III Annual Public Disclosure**

**Year 2015**

**As at December 31, 2015**

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## **I. Scope of Application:**

Mega International Commercial Bank (Canada) (the “Bank”) operates under a federal Schedule II bank license granted by the Canadian Ministry of Finance. The Bank established its operations in Canada in 1982 and the Head Office of the Bank is located in the city of Toronto, Ontario, Canada. Following the name change of the parent bank, the Bank has changed its name from International Commercial Bank of Cathay (Canada) to Mega International Commercial Bank (Canada), effective September 21, 2006.

The Basel Committee on Banking Supervision has published and updated the Basel II framework in June 2006. The third pillar of this framework describes the disclosure requirements for all federally regulated deposit-taking institutions. In compliance with this framework, the OSFI has published Guidelines and advisories regarding the implementation of Basel II Pillar 3 public disclosure requirements and expects the requirements outlined in these guidelines, advisory and letters have been fully implemented by the financial institution.

The purpose of this document is to meet the requirements of OSFI disclosure guidelines, as well as additional pillar 3 disclosure requirements. Relevant and proactive public disclosures enhance market discipline, contribute to financial stability and improve the transparency of the Bank’s capital base in the implementation of Basel III.

## **II. Capital Structure and Adequacy:**

The Bank maintains capital to support its activities while generating a return in relation to industry standards and the Bank’s risks profile. The Bank’s policy is to maintain its regulatory capital ratios consistent with regulatory requirements as defined by the Office of the Superintendent of Financial Institutions Canada (OSFI). The Bank’s Capital Management Policy requires the bank to maintain a minimum Common equity Tier 1 capital ratio 7%, Total Tier 1 capital ratio 8.5%, and Total capital ratio 10.5%. The Bank uses the Standard Approach for the credit risk and the Basic Indicator Approach for operation risk.

Capital funds are managed in accordance with policies and plans that are regularly reviewed and approved by the Board of Directors and take into account forecasted capital needs and markets. The Bank’s policies in respect of capital management are reviewed regularly by the Board. The goal is to maintain adequate regulatory capital to be considered well capitalized, protect customer deposits and provide capacity for internally generated growth.

The Bank's regulatory capital consists of Tier 1 capital only. Tier 1 capital includes common share equities and retained earnings. The Bank has complied with all externally and internally imposed capital requirements throughout the year. Regulatory capital and capital adequacy ratios are calculated in accordance with the requirements of OSFI and calculated by dividing Tier 1 capital and regulatory capital by risk-weighted assets. Risk-weighted assets are calculated according to OSFI prescribed rules relating to the Bank's exposures.

The break-down of Bank's risk-weighted assets as at year-end of 2014 and 2015 are as follows:

(Unit: C\$1,000)

Risk-Weighted Assets	2015.12.31		2014.12.31	
	Net Exposure	RWA	Net Exposure	RWA
Corporate	0	0	1,900	1,900
Sovereign	--	--	--	--
Bank	136,631	27,477	90,377	18,515
<b>Total Institutional Credit Exposures</b>	<b>136,631</b>	<b>27,477</b>	<b>92,277</b>	<b>20,415</b>
Residential mortgages	11,922	4,173	13,610	4,764
Other retail(excl. SMEs)	4,335	3,225	4,364	2,890
Retail SMEs	114,043	108,568	135,195	130,551
<b>Total Retail Credit Exposures</b>	<b>130,300</b>	<b>115,966</b>	<b>153,169</b>	<b>138,205</b>
<b>Other credit risk-weighted assets</b>	<b>9,719</b>	<b>9,165</b>	<b>6,966</b>	<b>7,032</b>
<b>Total Credit Risk</b>	<b>276,650</b>	<b>152,607</b>	<b>252,412</b>	<b>165,651</b>
<b>Operational Risk</b>		<b>10,350</b>		<b>11,238</b>
<b>Market Risk</b>				
<b>Total Risk-weighted Assets before Adjustment for CVA Phase-in</b>	<b>276,650</b>	<b>162,957</b>	<b>252,412</b>	<b>176,889</b>
<b>Total Risk-weighted Assets after Adjustment for CVA Phase-in</b>	<b>276,650</b>	<b>162,957</b>		<b>176,889</b>

The Bank's capital structures and capital adequacy ratios for 2014 and 2015 are as follows:

	2015	2014
	\$	\$
Common shares	23,000	23,000
Retained earnings	17,483	16,847
Total - Tier 1 capital	40,483	39,847
Total capital	40,483	39,847
Tier 1 capital ratio	24.84%	22.53%
Total capital ratio	24.84%	22.53%

### III. Credit Risk & Credit Risk Mitigation:

#### 1. General Disclosure:

Credit risk exists in every lending activity that the Bank enters into and arises predominantly with respect to loans and other credit instruments. This is the most significant measurable risk the Bank face. Effective credit risk management depends on experienced and skilled lending officers of the Bank and a disciplined environment with clear authorization and control structure as well as an effective collateral evaluation policy and procedure. Credit risk of the Bank includes default risk, collateral risk, concentration risk, commitment risk, and country risk.

#### 2. Impairment:

Nearly 50% of the Bank's assets are loan portfolio. Loans are measured at amortized cost and stated net of any allowance for credit losses. Interest income is recorded using the effective interest method. A loan is classified as impaired when objective evidence demonstrates there is an indication that the loan is impaired, such as default or delinquency of interest payments and in management's opinion, there is no longer reasonable assurance of timely collection, either in whole or in part, of principal or interest. Loans where interest or principal is contractually past due 90 days are recognized as impaired, unless management determines that the loan is fully secured, in the process of collection and the collection efforts are reasonably expected to result in either repayment of the loan or restoring it to a current status within 180 days from the date the payment has become contractually in arrears. All loans are classified as impaired when interest or principal is past due 180 days.

#### 3. Allowance for Credit Losses:

The Bank considers evidence of impairment for loans, advances and held to maturity instruments at both the individual asset level and the collective level. All individually significant loans, advances and held to maturity instruments are assessed for individual impairment. All individually significant loans, advances and held to maturity investments not found to be individually impaired are then collectively assessed for impairment that has been incurred but

not yet identified. Loans, advances and held to maturity instruments not individually significant are grouped according to their risk characteristics and assessed for impairment collectively.

In assessing collective impairment, the Bank uses statistical modeling of the probability of default and losses given default, adjusted for managements judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historic modeling.

Impairment of assets carried at amortized cost is measured as the difference between the carrying amount of the asset and the present value of expected future cash flows discounted at the asset's original effective interest rate. When the asset is impaired, the instrument's carrying amount is reduced to estimated realizable value through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be recognized on impaired amortized cost assets at the original effective interest rate.

#### **4. Credit Risk Mitigation:**

The Bank holds collateral against property in the form of charge, business in the form of cash and securities, deposit and bank guarantee. Among them deposits and bank guarantees are used for credit risk mitigation purposes as these liquid collaterals provide added security in recovering the Bank's asset in case of defaults.

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, residential mortgage loan and guarantee) is primarily secured by real estate property with personal guarantees or deposits.

Main types of collateral taken by the bank are Real Estates, Deposits, Stand-by LC and so on. Real Estates are held in form of charge/mortgage while Deposits, Stand-by LC are held as pledge and business chattel is held by PPSA registration. Collateral Realization Value (CRV) of Residential Property does not exceed 75% of appraisal or purchased value and CRV of Commercial Property does not exceed 65%. 100% of Deposits balance and Stand-by LC guarantee amount are realized as collateral value. Value of Business chattel is not considered.

Credit Risk Management guideline defines standard for real estate collaterals valuation. Most of real estate collaterals require appraisals by independent appraiser accepted by the Bank before securing loan is originated. Guideline also defines the cases of which appraisal by independent appraiser can be waived. Real estate value is updated if new appraisal is conducted.

#### **5. Quantitative Disclosure:**

- a. An analysis of the Bank's loan portfolio, net of the allowance for credit losses, by category and by location of ultimate risk is as follows:

	2015				
	Neither past due nor impaired	Past due but not impaired			
		<90 Days	90 to 180 days	Impaired	
	\$				\$
Canada					
Residential mortgages	11,657	-	-	-	11,657
Commercial mortgages	79,846	-	-	-	79,846
Consumer loans	3,551	-	-	28	3,579
Other business loans	18,591	-	-	86	18,677
Other					
Residential mortgages	254	-	-	-	254
Commercial mortgages	500	-	-	-	500
Consumer loans	-	-	-	-	-
Other business loans	-	-	-	-	-
	<b>114,399</b>	<b>-</b>	<b>-</b>	<b>114</b>	<b>114,513</b>
Allowance for credit losses					
Mortgages loans	(963)	-	-	-	(963)
Other loans	(248)	-	-	(46)	(294)
	<b>(1,211)</b>	<b>-</b>	<b>-</b>	<b>(46)</b>	<b>(1,257)</b>
Total loans, net of allowance for credit losses					<b>113,256</b>

	2014				
	Neither past due nor impaired	Past due but not impaired			
		<90 Days	90 to 180 days	Impaired	
	\$				\$
Canada					
Residential mortgages	13,459	-	-	-	13,459
Commercial mortgages	84,727	96	-	-	84,823
Consumer loans	3,558	-	-	32	3,590
Other business loans	38,150	-	-	-	38,150
Other					
Residential mortgages	137	-	-	-	137
Commercial mortgages	993	-	-	-	993
Consumer loans	118	-	-	-	118
Other business loans	-	-	-	-	-
	<b>141,142</b>	<b>96</b>	<b>-</b>	<b>32</b>	<b>141,270</b>
Allowance for credit losses					
Mortgages loans	(1,075)	(1)	-	-	(1,076)
Other loans	(513)	-	-	(32)	(545)
	<b>(1,588)</b>	<b>(1)</b>	<b>-</b>	<b>(32)</b>	<b>(1,621)</b>
Total loans, net of allowance for credit losses					<b>139,649</b>

- b. The following table analyzes the Bank's loan portfolio by the contractual maturity dates. This analysis excludes loans classified as impaired having a gross value of \$114 (2014 -\$32).

	2015					
	Immediately rate sensitive	Within 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
	\$	\$	\$	\$	\$	\$
Loans	19,937	61,418	31,309	1,733	-	114,397
Average effective yield	4.09%	3.31%	3.48%	3.95%	-	3.51%

	2014					
	Immediately rate sensitive	Within 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
	\$	\$	\$	\$	\$	\$
Loans	26,350	77,986	34,556	2,346	-	141,238
Average effective yield	4.31%	3.75%	3.79%	4.80%	-	3.88%

Average effective yields are based on book values and contractual interest rates, adjusted for the amortization of any deferred income. Cash interest received during the year on interest bearing instruments including loans and deposits held by the Bank was \$5,136 (2014 - \$6,628).

c. An analysis of impaired loans is as follow:

	2015		
	Gross amount	Individual allowance	Carrying amount
	\$	\$	\$
Canada			
Mortgage loans	-	-	-
Other loans	114	46	68
	114	46	68

	2014		
	Gross amount	Individual allowance	Carrying amount
	\$	\$	\$
Canada			
Mortgage loans	-	-	-
Other loans	32	32	-
	32	32	-

In addition to an individual allowance, the Bank has a collective allowance for loans of \$1,211



(2014 - \$1,589). The amount of interest accrued on impaired loans during the period was \$nil (2014- \$nil).

d. An analysis of the individual and collective allowances for credit losses is as follow:

	Individual		Collective		2015
	Loan and advances	Loans and advances	Letters of credit and guarantees	Investments and deposits	Total
		\$	\$		\$
Balance, beginning of year	32	1,589	52	64	1,737
Recoveries	-	-	-	-	-
Write-offs	-	-	-	-	-
Provision for credit losses	14	(378)	11	30	(323)
Balance, end of year	46	1,211	63	94	1,414

	Individual		Collective		2014
	Loan and advances	Loans and advances	Letters of credit and guarantees	Investments and deposits	Total
		\$	\$		\$
Balance, beginning of year	53	1,821	54	47	1,975
Recoveries	-	-	-	-	-
Write-offs	-	-	-	-	-
Provision for credit losses	(21)	(232)	(2)	17	(238)
Balance, end of year	32	1,589	52	64	1,737

e. The Bank's loan portfolios broke down by industry sector are as follows:

	2015		2014	
	Authorized	Total loans	Authorized	Total loans
		\$		\$
Industry Sector				
Financial institutions	10,000	-	10,000	-
Merchandising	40,000	6,949	40,000	3,965
Manufacturing	40,000	-	40,000	1,900
Construction/Real Estate	40,000	7,881	40,000	25,681
Logging and Forestry	15,000	2,513	15,000	5,211
Mining	25,000	-	10,000	-
Transportation	5,000	108	5,000	229
Oil/Energy	25,000	-	-	-
Mortgages	150,000	92,256	150,000	99,411
Others	20,000	4,805	20,000	4,874
	370,000	114,512	330,000	141,271

#### IV. Related Party Transactions:

In the normal course of business, the Bank enters into transactions with its parent and affiliated companies. Such transactions are measured at fair value, which is normally the exchange amount agreed to by the related parties. Related party transactions included in the financial

statements are on unsecured basis and are listed as follows:

	Parent	Group Subsidiaries	Key Management	2015
	\$	\$	\$	\$
Deposits with regulated financial institutions	-	502	-	502
Deposits	16,440	2,728	1,764	20,932
Interest income	-	1	-	1
Interest expense	18	-	4	22
Non-interest expenses	-	-	-	-

	Parent	Group Subsidiaries	Key Management	2014
	\$	\$	\$	\$
Deposits with regulated financial institutions	-	1,466	-	1,466
Deposits	2,329	1,317	2,069	5,715
Interest income	-	1	-	1
Interest expense	36	-	5	41
Non-interest expenses	-	-	-	-

The Bank had extended credit facilities to certain customers against letters of credit issued by parent Bank's branches in Taiwan. The value of these letters of credit amounted to \$1,317 (2014 - \$1,389).

## V. Basel II Pillar 3 Remuneration Disclosure:

The Bank's remuneration program is to compensate its employees at an adequate level that is internally fair and externally competitive in order to attract and retain skilled workforce.

Except director fees, the Bank does not provide remuneration or any other benefits to the independent, non-executive directors.

The Bank establishes its remuneration structure under the guidance of the remuneration policy of Mega International Commercial Bank Taiwan, the Parent Bank. There was no change to the remuneration policy as well as process during the year.

The remuneration practices are to consider both the performance goals as well as the risk appetite determined by management. Senior Management refers to the employees responsible

for making decisions on major risk-related or management-related issues. They are the material risk takers of the Bank.

The senior management of the Bank includes:

- President & CEO
- Chief Financial Officer
- Head of Credit
- Chief Risk Officer/Chief Compliance Officer

The amount of inherent risk may differ due to the nature of work each of them is responsible for, but the Bank has its Risk Appetite Framework in place to limit the amount of risk they can take. Senior management's salary shall be determined in accordance with the position and has been adjusted based on the results of their annual performance evaluation.

Remuneration decision for the CRO and Chief Compliance Officer and Internal Auditor are based on accomplishments toward their own mandates, not the Bank's financial performance and is subject to supervision by the Board.

Senior management's performance shall be evaluated annually based on pre-established targets. Their annual base salaries shall be increased or adjusted based on the results they achieved. Annual remuneration for Senior Management for the year 2013 and 2014 are as follows:

<b>Total Value of Remuneration</b> (Unit: C\$) <b>Awarded for the Year</b>	<b>2015.1.1 ~ 2015.12.31</b>	<b>2014.1.1 ~ 2014.12.31</b>
Fixed remuneration		
Salary & Allowance	569,212	469,824
Variable remuneration		
Discretionary bonus	151,670	113,067
<b>Total Remuneration</b>	<b>720,882</b>	<b>582,891</b>

## **VI. Derivative Financial Instrument Disclosures:**

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity or commodity instrument or index.

The Bank uses foreign exchange swaps primarily to manage its exposures to currency fluctuations as part of the Bank's asset liability management (ALM) program. Such derivatives are used to manage the Bank's own exposures.

Foreign exchange swap contracts are transactions in which two parties exchange currencies for a predetermined period. The currencies are exchanged at inception and re-exchanged at the end of the predetermined period.

The Bank does not apply hedge accounting to any of its derivatives. All of the Bank's derivatives are recorded at fair value on the balance sheet. Gains and loss of derivatives are recognized in Non-interest income/expenses.

Credit risk from derivative transactions is generated by the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the Bank. Therefore, derivative-related credit risk is represented by the positive fair value of the instrument and is normally a small fraction of the contract's notional amount. The Bank established lines for each derivative products and counterparties to control the risks.

Replacement cost represents the total fair value of all outstanding contracts in a gain position. The credit equivalent amount is defined as the sum of the positive replacement cost plus an add-on amount for potential future credit exposure as defined by the OSFI. The risk-adjusted amount is determined by applying the standard OSFI-defined measures of counterparty risk to the credit equivalent amount.

	Term to maturity		
	within 1 year	2015 Total	2014 Total
	\$	\$	\$
<b>Over-the-counter contracts:</b>			
<b>1. Notional amount</b>			
Foreign exchange swap contracts	-	-	12,761
<b>2. Gross positive replacement cost</b>			
Foreign exchange swap contracts	-	-	793
<b>3. Potential Credit Exposure (1% of item 1)</b>			
Foreign exchange swap contracts	-	-	128
<b>4. Credit equivalent amount (Sum of item 2 &amp; 3)</b>			
Foreign exchange swap contracts	-	-	921
<b>5. Risk-weighted assets (20% of item 4)</b>			
Foreign exchange swap contracts	-	-	184

The counterparties of the Bank's derivatives are Canadian Schedule I Banks.

## VII. Risk Management:

Management has developed policies and procedures to enable it to respond to various business risks of the Bank. The Bank's risk management policies are established to identify and analyze

the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered by the Bank.

The Board of Directors reviews and approves the Bank's overall risk management policies and Risk Appetite Framework.

The Audit Committee reviews overall internal controls and recommends approval of the financial statements to the Board of Directors.

The Chief Executive Officer (CEO) is responsible for reviewing and recommending any changes to the risk appetite, at least annually, as a result of setting the business plan, meeting regulatory requirements, as well as stakeholders' expectations.

The Chief Risk Officer (CRO) shall present the attestations of the compliance with the established risk limits to the Board for retention at least quarterly, and the Chief Compliance Officer (CCO) shall report the effectiveness of and compliance with the RAF to the Board at least annually.

The Head of each business unit should closely monitor risk limits established in this RAF and report to the CRO at least quarterly to ensure that the bank's day-to-day operations are in compliance with the framework.

## **1. Credit Risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party a financial loss. The objective of the bank's Credit Risk Management Policy is to minimize credit risk by assuming calculated risks with profitable returns.

Management of this risk is performed by regular monitoring of its credit assets quality. The Bank made provision for credit loss based on its assessment of credit quality. The maximum credit risk exposure of the bank is equal to the carrying amount of the respective financial assets.

The Bank establishes a default risk rating for counterparties for the credit facility. The default risk rating for the counterparty is determined using an internal system by the Bank and is based on a scale of grades (1~10). Each grade corresponds to the probability of default of the counterparty.

With respect to diversification, the credit policy sets the guidelines intended to limit credit concentration by counterparty and sector of activity. The policies are periodically reviewed and approved by the Board of Directors.

## **2. Interest Rate Risk**

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The objective of the bank's policy on interest rate risk is to minimize

exposure to interest rate risk while maintaining profitable lending practices. To manage and control the interest rate risk, the Bank maintains an appropriate matching policy for its assets and liabilities. The Bank maintained its exposure to interest rate risk within an appropriate level according to its policy.

The following table provides the potential before-tax impact of an immediate and sustained 200-basis-point increase in interest rates on net interest income and the impact on net interest income will be negative, if there is a 200-basis-point decrease in interest rates. The sensitivity analysis assumes the impact on interest income and shareholder's equity of a 200 basis point rise across all interest bearing instruments assuming all other factors are held constant.

#### Interest rate sensitivity

	2015	2014
	\$	\$
200-basis-point increase in the interest rate		
impact on net interest income (for the next 12 months)	1,024	971
impact on shareholder's equity	755	716

These figures are less than 3% of Shareholder's equity, which is the maximum amount allowed according to the Bank's Interest Rate Risk Policy.

### 3. Capital and Liquidity Risk

Maturity analysis for non-derivative and derivative financial liabilities as at December 31, 2015 and 2014 were:

	3 months or less	3 months to 1 year	1 year to 5 years	2015 Total
	\$	\$	\$	\$
Deposit				
Demand and notice deposits	70,850	-	-	70,850
Fixed term deposits	52,655	91,234	-	143,889
Derivative financial liabilities	-	-	-	-
Cheques and other items in transit	1,353	-	-	1,353
Guarantees	1,336	1,139	969	3,444
Letters of Credit	-	-	-	-
Undrawn commitments	27,189	33,870	-	61,059
	153,383	126,243	969	280,595

	3 months or less	3 months to 1 year	1 year to 5 years	2014 Total
	\$	\$	\$	\$
Deposit				
Demand and notice deposits	65,379	-	-	65,379
Fixed term deposits	55,458	73,585	-	129,043
Derivative financial liabilities	-	-	-	-
Cheques and other items in transit	825	-	-	825
Guarantees	1,341	833	812	2,986
Letters of Credit	-	-	-	-
Undrawn commitments	11,685	41,030	-	52,715
	134,688	115,448	812	250,948

Capital and liquidity risk include not meeting the minimum capital requirements or its financial obligations as set out by the Bank and the Office of the Superintendent of Financial Institutions. The Board and management regularly review various capital adequacy tests and cash flow requirements to ensure that sufficient funds are available to satisfy the capital requirements of the Board and its regulators. Refer to Note 18 for capital management.

The Bank manages its liquidity positions on a day to day basis in order to ensure it has sufficient cash and cash equivalents available to meet customer requirements and other obligations. This involves managing both liquid assets as well as diversifying sources of financing. Daily and monthly liquidity limits are set for different time periods. Daily Liquidity Report is prepared to cover the period 1 to 30 days and address wholesale funding needs. Monthly liquidity report is also prepared to address all asset and liability maturities.

#### **4. Operational Risk**

Operational Risk is the loss resulting from inadequate or failed internal process, system, procedures, or from misconduct of employee or external events. Senior management of the Bank shall develop a clear, effective and robust governance structure with well defined, transparent and consistent lines of responsibility for managing operational risk in all of the bank's material products, services and activities.

In BCAR calculation, the Bank uses the Basic Indicator Approach to measure its operational risk. The Basic Indicator Approach requires banks to calculate operational risk capital requirements by applying a factor of 15% to a three-year average of positive annual gross income, where gross income is equal to net interest income plus non-interest income.

#### **5. Foreign Exchange Risk**

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to

changes in foreign exchange rates. Management of this risk is performed by maintaining an appropriate matching policy for its foreign currency denoted assets and liabilities. The Bank maintained its exposure to foreign exchange risk within an appropriate level according to its policy. Refer to Note 16 for foreign exchange swaps used to manage the currency risk.

The following table indicates the Bank's foreign exchange risk exposure to \$US dollars at the statement of financial position date (including foreign exchange swaps). The sensitivity analysis assumes all factors are held constant except for a 1% change in the \$US exchange rate against \$CAD.

Foreign Exchange risk

	<b>2015</b>	2014
In thousand of Canadian Dollars	\$	\$
Overall overnight/intraday \$US position:Long/(Short)	<b>67</b>	48
Effect of a 1% change in \$US - \$CAD exchange rates on equity	-	-

**VIII. Fair Values of Financial Instruments:**

The estimated fair value amounts are designed to approximate amounts at which instruments could be exchanged in a current transaction between knowledgeable willing parties in an arms-length transaction. 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 judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

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



	2015			2014		
	Fair value	Book value	Fair value over/ (under) book value	Fair value	Book value	Fair value over/ (under) book value
	\$	\$	\$	\$	\$	\$
<b>Financial Instruments</b>						
<b>Assets</b>						
Deposits with regulated financial institutions	136,374	136,374	-	89,249	89,249	-
Loans (note 4)	113,228	113,256	(28)	139,619	139,649	(30)
Customers' liability under acceptances	-	-	-	-	-	-
Other Assets (note 8)	8,175	8,175	-	6,061	6,061	-
<b>Liabilities</b>						
Deposits (note 9)	143,889	143,889	-	129,044	129,043	1
Acceptances	-	-	-	-	-	-
Cheques and other items in transit	1,353	1,353	-	825	825	-
Other liabilities (note 10)	3,052	3,052	-	1,163	1,163	-

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

- (a) For floating rate loans, fair value is assumed to be equal to book values as the interest rates on these loans automatically re-priced to market.
- (b) For fixed rate loans that matured within one year are assumed to be equal to their book 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 fair values of deposits payable on demand, payable after notice and fixed date deposit payable on a fixed date that matured within one year, are assumed to be equal to their carrying values. The estimated fair values of fixed rate deposits payable on a fixed date over one year are determined by discounting the contractual cash flow using market interest rates currently offered for deposits with similar terms and risks.

The fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments, such as land, buildings and equipment.

The bank uses a hierarchical framework which prioritizes and ranks the level of market price observability used in measuring fair value and presents disclosures about fair value measurements. Market price observability is impacted by a number of factors, including the

type of investment, the characteristics specific to the investment, and the state of the marketplace. Investments with readily-available actively quoted prices or for which fair value can be measured from actively-quoted prices in an orderly market will generally have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments recorded at fair value on the Bank's statement of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by IFRS 7 and directly related to the amount of subjectivity associated with inputs to fair valuation of these assets are as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs). Fair value is determined with at least one significant model assumptions which is unobservable in the current market (i.e. limited trading volume) and therefore management exercises their judgment in determining their value.

The valuation of the Bank's assets and liabilities as of December 31, 2015 and 2014 are as follows:

<b>2015</b>				
	<b>Total</b>	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
	\$	\$	\$	\$
<b>Assets</b>				
Derivative financial assets	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>				
Derivative financial liabilities		-		-

<b>2014</b>				
	<b>Total</b>	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
	\$	\$	\$	\$
<b>Assets</b>				
Derivative financial assets	<b>793</b>	-	<b>793</b>	-
<b>Total</b>	<b>793</b>	<b>-</b>	<b>793</b>	<b>-</b>
<b>Liabilities</b>				
Derivative financial liabilities		-		-

During the years ended December 31, 2015 and 2014, the Bank does not have any significant transfers between Level 1 and Level 2.

## **IX. Authorization of financial statements**

The financial statements of Mega International Commercial Bank (Canada) were authorized by its Board of Directors for issue on March 17, 2016 and prepared in accordance with IFRS.