Financial statements of

Mega International Commercial Bank Co., Ltd., Canada Branch

December 31, 2018

Deloitte.

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Independent Auditor's Report

To the Shareholders of
Mega International Commercial Bank Co., Ltd. Canada Branch

Opinion

We have audited the financial statements of Mega International Commercial Bank Co., Ltd. Canada Branch (the "Branch"), which comprise of the statement of financial position as at December 31, 2018, and the statement of operations and comprehensive income, statement of accumulated comprehensive income (loss) and statement of cash flows for the period from April 16, 2018 to December 31, 2018, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Branch as at December 31, 2018, and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
February 27, 2019

Mega International Commercial Bank Canada Branch

Statement of operations and comprehensive income

For the period April 16, 2018 to December 31, 2018

(In thousands of Canadian dollars, unless otherwise noted)

	Notes	2018 $
Interest income		
Loans		2,491
Deposits with regulated financial institutions		1,421
Other		18
		3,930
Interest expense - deposits		1,324
Net interest income		2,606
Provision for credit losses	6	1,140
Net interest income after provision for credit losses		1,466
Other income	12	287
Net interest and other income		1,753
Non-interest expenses		
Salaries and staff benefits		2,382
Premises and equipment, including amortization		508
Other		648
		3,538
Net loss before provision for income taxes		(1,785)
Provision for income taxes	13	(449)
Net Loss		(1,336)

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

Mega International Commercial Bank Canada Branch

Statement of financial position

As at December 31, 2018

(In thousands of Canadian dollars, unless otherwise noted)

	Notes	2018 $
Assets		
Cash resources		
Cash		**385**
Deposits with regulated financial institutions	3	**87,272**
		87,657
Loans	4,5 and 6	
Mortgage loans		**64,962**
Other loans		**25,123**
		90,085
Deferred income taxes	13	**449**
Other		
Property and equipment	7	**3,350**
Cheques and other items in transit		**38**
Due From Branch	15	**630**
Other assets	8	**1,545**
		5,563
		183,754
Liabilities		
Deposits	9	
Payable on demand		**25,096**
Payable after notice		**6,766**
Payable on a fixed date		**94,334**
		126,196
Other		
Cheques and other items in transit		**188**
Due To Branch	15	**57,301**
Other liabilities	10	**1,405**
		58,894
Accumulated other comprehensive income (loss)		**(1,336)**
		183,754

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

Mega International Commercial Bank Canada Branch

Statement of accumulated comprehensive income (loss)

For the period April 16, 2018 to December 31, 2018

(In thousands of Canadian dollars, unless otherwise noted)

	2018
	$
Accumulated other comprehensive income (loss)	
Accumulated other comprehensive income (loss), beginning of period	—
Change in other comprehensive income (loss)	(1,336)
Accumulated other comprehensive income (loss), end of period	(1,336)

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

Mega International Commercial Bank Canada Branch

Statement of cash flows

For the period April 16, 2018 to December 31, 2018

(In thousands of Canadian dollars, unless otherwise noted)

	2018 $
Operating activities	
Net Loss	(1,336)
Interest expense	1,324
Interest income	(3,930)
Adjustments to determine net cash provided by/(used in) operating activities	
Loans, net of repayments	(91,182)
Provision for credit losses	1,140
Depreciation of property and equipment	38
Deferred income taxes	(449)
Interest paid	(618)
Interest received	3,435
Change in other items, net	702
	(90,876)
Investing activities	
Changes in deposits with regulated financial institutions with original maturity dates greater than three months	(27,284)
Acquisition of property and equipment	(3,388)
Inward and outward documentary bills	(1,053)
	(31,725)
Financing activity	
Deposits, net of withdrawals	126,196
Net increase in cash and cash equivalents	3,595
Cash and cash equivalents, end of period	3,595
Represented by	
Cash	385
Deposits with regulated financial institutions with original maturity dates of three months or less	60,031
Cheques and other items in transit, net	(226)
Due to/from branch	(56,595)
	3,595

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

On March 13, 2018, Mega International Commercial Bank (Canada) (the "Subsidiary") received approval from the Office of the Superintendent of Financial Institutions (the "OSFI") to establish a full service foreign bank branch "Mega International Commercial Bank Co., Ltd., Canada Branch" (the "Branch") in Canada. In accordance with a sales agreement dated September 22, 2017 between the Subsidiary and Mega International Commercial Bank Co., Ltd. (the "Parent Bank"), the Parent Bank agreed to purchase substantial assets and assume substantial liabilities of the Subsidiary. The transfer of the assets and liabilities was accounted for at fair value for accounting and tax purposes. The transaction was completed and the Branch commenced operations on April 16, 2018. After the conversion, the Branch is licensed to operate as a foreign bank branch in Canada under the Bank Act and is regulated by the OSFI The Branch's registered address is 4950 Yonge Street, Suite 1002, Toronto, Ontario, Canada M2N 6K1. As 2018 is the first year of operations for the Branch, there are no comparative figures.

1. Estimates and assumptions

The preparation of the financial statements requires management to make estimates and assumptions which include the fair valuation of certain financial assets and liabilities, the allowance for loan losses, the impairment of assets other than loans, as well as various contingencies. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. The significant accounting policies used in the preparation of these financial statements are summarized below and conform, in all material respects, to International Financial Reporting Standards ("IFRS").

2. Significant accounting policies

Classification of financial instruments

The Branch's classifications of financial assets and financial liabilities in accordance with IFRS 9 - Financial Instruments classification are as follows:

Cash equivalents	Amortized cost
Deposits with regulated financial institutions	Amortized cost
Government of Canada treasury bills	Amortized cost
Other securities	Fair value through other comprehensive income
Loans	Amortized cost
Customers' liability under acceptances	Amortized cost
Accrued interest receivable and other receivables	Amortized cost
Deposits	Amortized cost, other financial liabilities
Acceptances	Amortized cost, other financial liabilities
Accrued interest payable and accrued liabilities	Amortized cost, other financial liabilities
Securities sold under repurchase agreements	Amortized cost, other financial liabilities

The carrying amount of cash excludes accrued interest.

Management has judged that the amortized cost classification is the most appropriate category for deposits with regulated financial institutions and Government of Canada treasury bills because the Branch intends to and has the ability to hold these instruments until maturity.

2. Significant accounting policies (continued)

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing at period-end

Income and expense items denominated in foreign currencies are translated into Canadian dollars at the approximate average exchange rates prevailing throughout the period or at the date of the transaction.

Realized and unrealized foreign exchange gains and losses are included in other income in the statement of operations.

Cash and cash equivalents

Cash includes cash on hand and demand cash deposits. Cash equivalents are short- term deposits with financial institutions with an original term to maturity of 90 days or less. Cash equivalents are classified as amortized cost to reflect regular receipts of interest on the principal amount.

Deposits with regulated financial institutions

Deposits with regulated financial institutions are recognized at amortized cost. Interest income on interest bearing deposits is recorded using the effective interest method.

Securities

The Branch records its purchase and sales of securities on settlement date. Government of Canada treasury bills, all of which are amortized cost in the Branch's investment account, are carried at amortized cost which management has judged approximates to fair value. Gains and losses on disposal of these securities are included in other income in the year of disposal.

Other securities are classified as fair value through other comprehensive income and are carried at fair value, using bid price at the balance sheet date. Any changes in the fair values of other securities are recognized in Other Comprehensive Income (OCI). When the asset is disposed of, or has become impaired, the accumulated gain or loss in OCI is transferred from OCI to the Statement of Operations and recognized as net gains (losses) on invested assets and other gains (losses).

Loans

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.

Allowance for credit losses

The Branch's estimate of the allowance for impairment on loans is based on an expected credit loss ("ECL") approach that employs analysis on the following factors:

- The Branch's internal rating sets the criterion for a loan to be included in a particular bucket at the time of advance. The Branch's historical loss rate (the percentage is an average of the last 20-year historic loss rate).
- An economic factor related to a specific internal rating category determines the stages or Default.

2. Significant accounting policies (continued)

Allowance for credit losses (continued)

- For each term category, ECL is booked as per loan grades corresponding to a loss rate. Loans are discounted at the contract rate (Present Value of Carrying Amount and Interest Income).
- 12 months or lifetime ECL is recorded for loans at initial recognition or booking of loans (based on loan grades). In the subsequent reporting period ECL is adjusted as per loan performance. In addition, ECL is recorded or adjusted minus the previous recorded ECL.
- Stage 1 covers performing loans with internal Grade 1 to 4.
- Stage 2 covers exposures that have low credit quality, as per internal Grade 5 to 6 and 7 to 8.
- Stage 3 covers loans that have impaired or shown signs of impairment at the reporting date.

Future customer behaviour may be affected by a number of factors, including the general stage of the economy and real estate values.

Acceptances

The Branch's liability under acceptances is reported as a liability in the statement of financial position. The Branch'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 included in other income.

Property and equipment

Land is carried at cost. All other property and equipment assets are carried at cost, less accumulated amortization. Amortization is based on the asset's estimated useful life on a straight line basis over the following terms:

Buildings	50 years
Vehicles and computer equipment	5 years
Furniture and fixtures	8 years
Leasehold improvements	Term of lease

The Branch reviews its property and equipment as at each statement of financial position date for indications of impairment, such as physical damage or changes in the planned use of the asset.

Leasehold inducements

Cash payments from the lessor are accounted for as reductions of rental expense over the term of the lease.

2. Significant accounting policies (continued)

Income taxes

The Branch follows the asset and liability method of accounting for income taxes, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that substantive enactment or enactment occurs.

Securities sold under repurchase agreements

When securities are sold subject to a commitment to repurchase them at a predetermined price ("repos"), they remain on the statement of financial position and a liability is recorded in respect of the consideration received. The difference between the sale and repurchase price is treated as interest and recognized over the life of the agreement. Interest expense is recorded on an accrual basis.

Derivative financial instruments

In the ordinary course of business, the Branch enters into various foreign exchange swaps. The Branch enters into such contracts to manage its exposures to currency fluctuations as part of the Branch's asset - liability management (ALM) program. Such derivatives are used to manage the Branch's own exposures.

The fair value of derivatives is recognized in Other assets or Other liabilities at the statement of financial position date and the gain or loss is recognized in Other income. All derivatives are carried at fair value and the resulting net gains or losses are recognized as Other income in the statement of operation and Statement of accumulated comprehensive income in the current period.

Other income

Other income includes commission earned form the provision of services and gains or losses on foreign exchange, which are recognized as revenue. Commission income is generally earned on a straight line basis over the contract period. Foreign exchange gains and losses are recognized in the statement of operations and comprehensive income in the period to which they relate.

Financial guarantee contracts

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortization, and the best estimate of the expenditure required to settle the obligations.

(In thousands of Canadian dollars, unless otherwise noted)

2. Significant accounting policies (continued)

Future changes in accounting policy

IFRS 16, Leases ("IFRS 16")

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lesser accounting requirements of IAS 17, Leases, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. The new standard is effective for annual periods beginning on January 1, 2019. The Branch is currently assessing the impact of this new standard on its financial statements.

3. Deposits with regulated financial institutions

Deposits with regulated financial institutions are unsecured. An analysis of gross deposits with regulated financial institutions by remaining term to maturity and location of ultimate risk is as follows:

				2018
	Non-interest bearing $	**Within 3 months $**	**3 months to 6 months $**	**Total $**
Canada	**5,066**	**54,965**	**27,284**	**87,315**
United States	**—**	**—**	**—**	**—**
Other countries	**—**	**—**	**—**	**—**
	5,066	**54,965**	**27,284**	**87,315**
Collective allowance	**(3)**	**(27)**	**(13)**	**(43)**
Total deposits with regulated financial institutions, net of collective allowance	**5,063**	**54,938**	**27,271**	**87,272**
Average effective yield	**0.00%**	**2.35%**	**3.26%**	**2.50%**

Average effective yields are based on book values and contractual interest rates.

Deposits with regulated financial institutions include amounts denominated in foreign currencies of $53,872.

(In thousands of Canadian dollars, unless otherwise noted)

4. Loans

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

					2018
	Neither past due nor impaired	Past due but not impaired <90 Days	90 to 180 days	Impaired	
	$	$	$	$	$
Canada					
Residential mortgages	4,725	—	—	—	4,725
Commercial mortgages	60,680	—	—	—	60,680
Consumer loans	—	—	—	11	11
Other business loans	25,422	—	—	—	25,422
Other					
Residential mortgages	224	—	—	—	224
Commercial mortgages	—	—	—	—	—
Consumer loans	—	—	—	—	—
Other business loans	—	—	—	—	—
	91,051	—	—	11	91,062
Allowance for credit losses					
Mortgages loans	(667)	—	—	—	(667)
Other loans	(299)	—	—	(11)	(310)
	(966)	—	—	(11)	(977)
Total loans, net of allowance for credit losses					90,085

(b) The following table analyzes the Branch's loan portfolio by the contractual maturity dates. This analysis excludes loans classified as impaired having a gross value of $11.

						2018
	Immediately rate sensitive	Within 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
	$	$	$	$	$	$
Loans	9,581	49,455	32,015	—	—	91,051
Average effective yield	4.93%	4.34%	3.82%	0.00%	—	4.22%

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 period on interest bearing instruments including loans and deposits held by the Branch was $3,921.

(In thousands of Canadian dollars, unless otherwise noted)

5. Impaired loans

An analysis of impaired loans is as follows:

			2018
	Gross amount	Individual allowance	Carrying amount
	$	$	$
Canada			
Other loans	11	11	—

In addition to an individual allowance, the Branch has a collective allowance for loans of $966.

The amount of interest accrued on impaired loans during the period was nil.

6. Allowances for credit losses

An analysis of the individual and collective allowances for credit losses is as follows:

					2018
	Individual		Collective		
	Loan and advances	Loans and advances	Letters of credit and guarantees	Investments and deposits	Total
	$	$	$	$	$
Balance, beginning of year	—	—	—	—	—
Recoveries	—	—	—	—	—
Write-offs	—	—	—	—	—
Provision for credit losses	(11)	(966)	(120)	(43)	(1,140)
Balance, end of year	(11)	(966)	(120)	(43)	(1,140)

7. Property and equipment

									2018
	Cost				Accumulated depreciation				
	Opening balance	Additions	Disposals	Closing balance	Opening balance	Additions	Disposals/ writedowns	Closing balance	Net book value
	$	$	$	$	$	$	$	$	$
Land	—	1,624	—	1,624	—	—	—	—	1,624
Buildings	—	1,683	—	1,683	—	21	—	21	1,662
Furniture and equipment	—	81	—	81	—	17	—	17	64
Leasehold improvements	—	—	—	—	—	—	—	—	—
	—	3,388	—	3,388	—	38	—	38	3,350

(In thousands of Canadian dollars, unless otherwise noted)

8. Other assets

	2018
	$
Accrued interest receivable	**496**
Outward documentary bills	**1,053**
Other	**(4)**
	1,545
Due in less than one year	**1,545**
Due in more than one year	**—**

9. Deposits

(a) The following is an analysis of the Branch's deposits by category:

	Payable on demand		Payable after notice		Payable	2018
	Interest bearing	Non-interest bearing	Interest bearing	Non-interest bearing	on a fixed date	Total
	$	$	$	$	$	$
Canada						
Individuals	—	—	1,663	—	45,387	47,050
Businesses and deposit-taking institutions	12,004	11,791	—	—	—	23,795
	12,004	11,791	1,663	—	45,387	70,845
Average effective interest rate	0.20%		0.04%		1.37%	0.91%
United States						
Individuals	—	—	7	—	1,246	1,253
Businesses and deposit-taking institutions	—	—	—	—	—	—
	—	—	7	—	1,246	1,253
Average effective Interest rate			0.04%		1.08%	1.08%
Other countries	—	1,301	5,096	—	47,701	54,098
Average effective Interest rate			0.03%		1.17%	1.03%
Total deposits	12,004	13,092	6,766	—	94,334	126,196
Average effective Interest rate	0.20%		0.03%		1.26%	0.97%

Total cash interest paid during the period by the Branch on interest bearing liabilities was $595.

(In thousands of Canadian dollars, unless otherwise noted)

9. Deposits (continued)

(a) continued

Deposits payable on demand are interest bearing and non-interest bearing deposits, generally chequing accounts, where the Branch does not have the right to require notice of withdrawal. Deposits payable after notice are interest bearing deposits, generally savings accounts, where the Branch can legally require notice prior to withdrawal. Deposits payable on a fixed date are interest bearing deposits, typically term deposits, guaranteed investment certificates and similar instruments with terms ranging from one day to five years, which mature on a specified date.

Total deposits include amounts denominated in foreign currencies of $53,629.

(b) The following table provides an analysis of deposits payable on a fixed date by contractual maturity dates:

				2018
	Within 3 months $	3 months to 1 year $	1 to 5 years $	Total $
Deposits payable on a fixed date	34,115	60,219	—	94,334
Average effective interest rate	1.10%	1.36%	—	1.26%

Average effective interest rates are based on book values and contractual interest rates.

10. Other liabilities

	2018 $
Accrued interest payable	707
Accounts payable and other liabilities	698
	1,405
Due in less than one year	1,405
Due in more than one year	—

(In thousands of Canadian dollars, unless otherwise noted)

11. Operating segments

(a) Operating segment

The Branch operates in one operating segment.

(b) An analysis of the Branch's gross aggregate outstanding deposits with regulated financial institutions, securities, loans, and customers' liability under acceptances, by geographic location, on the basis of the location of ultimate risk, is as follows:

	2018
	$
Canada	**178,142**
United States	**224**
Other	**—**
	178,366

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

	2018
	$
Canada	**3,913**
United States	**5**
Other	**—**
	3,918

There was no interest income generated in the period from cash deposits.

12. Other income

	2018
	$
Commission income	**184**
Gain (loss) on foreign exchange	**63**
Other	**40**
	287

(In thousands of Canadian dollars, unless otherwise noted)

13. Income taxes

Income tax expense for the period consists of:

	2018
	$
Current	
Current year tax (recovered) expense	—
Adjustment for prior year	—
	—
Deferred	
Origination/reversal of temporary differences	(449)
Total income tax expense (recovered)	(449)

Income tax expense differs from the amounts computed by applying the combined federal and provincial income tax rate of 26.73% to pretax loss as a result of the following:

	2018
	$
Net loss before income taxes	(1,785)
Combined Canadian federal and provincial income tax rate applied to net income before income taxes	(477)
Income taxes adjusted for the effect of	
Permanent differences	28
Provision for income taxes	(449)

The tax effects of temporary differences that give rise to significant portions of the deferred income taxes are presented below:

	2018
	$
Deferred income tax asset	
Allowance for credit losses	1,140
Other	(691)
Total deferred income taxes	449
Change in deferred income taxes recognized in the statement of operations	
Allowance for credit losses	—
Other	—
	—

The deferred tax asset that is expected to be realized within one year of the statement of financial position date is $252 and the remaining balance expected to be realized is $197.

14. Guarantees and credit-related commitments

(a) Guarantees

In the normal course of business, the Branch enters into numerous guarantee agreements. The table below summarizes the maximum potential amount of future payments for significant guarantees the Branch has provided that are in effect on December 31, 2018:

	2018
	$
Guarantees and financial standby letters of credit	3,041
Performance guarantees	225
	3,266

The maximum potential amount of future payments represents the maximum risk of loss if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions, insurance policies or from collateral held or pledged.

Guarantees and financial standby letters of credit are direct credit substitutes and represent irrevocable assurances that the Branch will make payments in the event that a customer cannot meet its financial obligations to third parties. Generally, the term of these instruments does not exceed one year.

Performance guarantees are transaction-related contingencies which back particular performance obligations rather than customers' financial obligations. Performance guarantees represent irrevocable assurances that the Branch will make payments in the event that a customer cannot meet its performance obligations to third parties. Generally, the term of these instruments does not exceed one year.

Guarantees, financial standby letters of credit and performance guarantees carry the same credit risk, recourse and collateral security requirements as loans extended to customers.

(b) Credit-related commitments

In the normal course of business, the Branch enters into various off-balance sheet commitments. The primary purpose of these commitments is to ensure that funds are available to customers as required and to facilitate international trade. The table below summarizes significant credit-related commitments of the Branch and the maximum amount of additional credit the Branch could be obligated to extend should contracts be fully utilized:

	2018
	$
Commitments to extend credit	
Original term of one year or less	31,351

Documentary and commercial letters of credit are trade-related contingencies and are written undertakings by the Branch on behalf of a customer authorizing a third party, such as an exporter, to draw drafts on the Branch up to a stipulated amount under specific terms and conditions. The Branch is at risk for any drafts drawn that are not ultimately settled by the customer, however the amounts drawn are collateralized by the related goods.

(In thousands of Canadian dollars, unless otherwise noted)

14. Guarantees and credit-related commitments (continued)

(b) Credit-related commitments (continued)

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, bankers' acceptances, guarantees or letters of credit. The Branch is required at all times to make the unused portion of the authorization available, subject to certain conditions.

As many of these guarantees and commitments will expire or terminate without being drawn upon, the contract amounts are not necessarily indicative of future cash requirements or credit risk.

(c) Operating lease commitments

Future obligations for leased premises are as follows:

	2018 $
One year or less	230
Between one and five years	632
After five years	—
	862

The total rental expense charged in respect of buildings and equipment was $351.

15. Related party transactions

(a) In accordance with a sales agreement dated September 22, 2017 between the Subsidiary and the Parent Bank, the Parent Bank agreed to purchase substantial assets and assume substantial liabilities of the Subsidiary. The Subsidiary transferred ~~of~~ assets and liabilities from the Subsidiary to the Branch on April 16, 2018. The following table summarized the breakdown of the values of assets and liabilities transferred:

			2018
	Fair market value $	Book value $	Gain /loss $
Assets			
Cash resources			
Cash	402	402	—
Deposit with regulated financial insitutuions	108,826	108,826	—
Loans	83,800	83,800	—
Property and equipment	2,846	356	2,490
Other Assets	2,480	2,480	—
Liabilities			
Deposits	197,573	197,573	—
Cheques and other items in transit	115	115	—
Other liabilities	666	666	—

(In thousands of Canadian dollars, unless otherwise noted)

15. Related party transactions (continued)

(b) In the normal course of business, the Branch enters into transactions with the Parent Bank and other branches of the Parent Bank. 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:

	2018 $
Amount owed by related parties	
Demand deposit	**630**
Amount owed to related parties	**—**
Demand deposit	**5,401**
Notice deposit	**1,900**
Fixed deposit	**50,000**

16. Key management personnel compensation

The following table indicates the compensation paid to the key management personnel of the Branch in exchange for services rendered.

	2018 $
Salaries and short-term employee benefits	**427**

17. Derivative financial instruments

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 Branch uses foreign exchange swaps primarily to manage its exposures to currency fluctuations as part of the Branch's ALM program. Such derivatives are used to manage the Branch'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 Branch does not apply hedge accounting to any of its derivatives. All of the Branch's derivatives are recorded at fair value on the statement of financial position. Gains and loss of derivatives are recognized in Non-interest income/expenses.

Derivative-related credit risk

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 Branch.

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 Branch established lines for each derivative products and counterparties to control the risks.

17. Derivative financial instruments (continued)

Derivative-related credit risk (continued)

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 OSFI. The risk-adjusted amount is determined by applying the standard OSFI-defined measures of counterparty risk to the credit equivalent amount.

18. Financial instruments and risk management

Risk management

Management has developed policies and procedures to enable it to respond to various business risks of the Branch. The Principal Officer reviews and approves the Branch's overall risk management policies as well as the overall internal controls

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 Branch's credit risk 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 Branch made provision for credit loss based on its assessment of credit quality. The maximum credit risk exposure of the Branch is equal to the carrying amount of the respective financial assets.

Measuring credit risk - loans

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

(In thousands of Canadian dollars, unless otherwise noted)

18. Financial instruments and risk management (continued)

Measuring credit risk – loans (continued)

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 Credit Committee. The following table provides additional information on the Branch's loan portfolios.

Portfolio of industry sector

Industry sector	Outstanding Balance (C$1,000)	Current Exposure Percentage %	The Branch's Limit Percentage % of the Bank's net worth	Outstanding Balance (C$1,000)	Current Exposure Percentage %	The Branch's Limit Percentage % of the Bank's net worth
The Parent Bank Equity C$10,640,859						
(In thousand)	2018					
1. Manufacturing Industries	1,058	—	—	—	—	—
2. Power, Gas supplier	—	0.00%	1%	—	0.00%	1%
3. Water, Antipollution	—	0.00%	1%	—	0.00%	1%
4. Construction	—	0.00%	6%	—	0.00%	6%
5. Wholesale, Retail	5,804	0.05%	2%	—	0.00%	2%
6. Transportation, Warehousing	—	0.00%	2%	—	0.00%	2%
7. Hotel, Restaurant	678	0.01%	1%	—	0.00%	1%
8. Information, communication medium	—	0.00%	1%	—	0.00%	1%
9. Finance, Insurance	—	0.00%	5%	—	0.00%	5%
10. Real Estate/Mortgage	87,566	0.82%	10%	—	0.00%	10%
11. Service Industries	264	0.00%	2%	—	0.00%	2%
12. Government	—	—	—	—	—	—
13. Individuals	11	—	—	—	—	—
14. Others	—	—	—	—	—	—
15. The loans excluded from lending limits	—	—	—	—	—	—
Total Outstanding Balance	95,381			—		

**Total Outstanding Balance: Including Loans. Outward Documentary Bills and Guarantee Standby L/C

Refer to Note 17 for credit risk on derivative contracts.

Concentration of credit risk for other financial assets is reflected by the relative groupings presented in notes 4, 5 and 6. The likelihood of impairment of other financial assets is considered low because the Branch only deposits monies and invests with institutions having an investment grade credit rating.

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 Branch'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 Branch maintains an appropriate matching policy for its assets and liabilities. The Branch maintained its exposure to interest rate risk within an appropriate level according to its policy.

(In thousands of Canadian dollars, unless otherwise noted)

18. Financial instruments and risk management (continued)

Interest rate risk (continued)

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 of a 200 basis point rise across all interest bearing instruments assuming all other factors are held constant.

Interest rate sensitivity

	2018 **$**
200-basis-point increase in the interest rate impact on net interest income (for the next 12 months)	**216**

Liquidity risk

Maturity analysis for non-derivative and derivative financial liabilities as at December 31, 2018:

				2018
	3 months or less **$**	**3 months to 1 year** **$**	**1year to 5 years** **$**	**Total** **$**
Deposits				
Demand and notice deposits	**31,862**	**—**	**—**	**31,862**
Fixed term deposits	**34,115**	**60,219**	**—**	**94,334**
Cheques and other items in transit	**188**	**—**	**—**	**188**
Guarantees	**1,336**	**975**	**955**	**3,266**
Undrawn commitments	**17,649**	**13,702**	**—**	**31,351**
	85,150	**74,896**	**955**	**161,001**

The Branch 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. A daily liquidity report is prepared to cover the period 1 to 30 days and address wholesale funding needs. A monthly liquidity report is also prepared to address all asset and liability maturities. Refer to Note 9 for deposit maturity schedule.

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 Branch has maintained its exposure to foreign exchange risk within an appropriate level according to its policy. Refer to Note 17 for foreign exchange swaps used to manage the currency risk.

The following table indicates the Branch'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.

18. Financial instruments and risk management (continued)

Foreign exchange risk (continued)

In thousands of Canadian Dollars	2018 $
Overall overnight/intraday $US position:Long/(Short)	5
Effect of a 1% change in $US -$CAD exchange rates on equity	-

19. Pension plan

The Branch contributes to the Canadian Pension Plan, a defined contribution pension plan. The total pension expense for the period was $30 .

20. Interest-rate risk sensitivity

The following table summarizes the Branch's 2018 matching gap between assets and liabilities by the earlier of contractual re-pricing or maturity date.

								2018
	Floating rate $	3 months or less $	3 to 6 months $	6 to 12 months $	1 to 3 years $	3 to 5 years $	Non-rate sensitive $	Total $
Assets								
Cash resources	—	54,965	27,285	—	—	—	5,407	87,657
Securities	—	—	—	—	—	—	—	—
Loans	9,581	49,455	3,921	28,094	—	—	(966)	90,085
Deferred income taxes							449	449
Other	629	1,053	—	—	—	—	3,881	5,563
	10,210	105,473	31,206	28,094	—	—	8,771	183,754
Liabilities								
Deposits								
Payable on demand	12,003	—	—	—	—	—	13,093	25,096
Payable after notice	6,766	—	—	—	—	—	—	6,766
Payable on a fixed date	—	34,118	18,745	41,471	—	—	—	94,334
Other	1,900	50,000	—	—	—	—	6,994	58,894
OCI (loss)							(1,336)	(1,336)
	20,669	84,118	18,745	41,471	—	—	18,751	183,754
Excess (deficiency) of assets over liabilities	(10,459)	21,355	12,461	(13,377)	—	—	(9,980)	—

(In thousands of Canadian dollars, unless otherwise noted)

21. Fair values of financial instruments

The amounts set out in the table below represent the fair values of the Branch's financial instruments using the valuation methods and assumptions described below.

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 arm's length transaction. However, many of the Branch'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.

	Notes	Fair value $	Book value $	2018 Fair value over/ (under) book value $
Financial instruments				
Assets				
Deposits with regulated financial institutions		**87,272**	**87,272**	**—**
Loans	4	**90,091**	**90,085**	**6**
Customers' liability under acceptances		**—**	**—**	**—**
Other assets	8	**1,545**	**1,545**	**—**
Liabilities				
Deposits	9	**126,196**	**126,196**	**—**
Acceptances		**—**	**—**	**—**
Cheques and other items in transit		**188**	**188**	**—**
Other liabilities	10	**1,405**	**1,405**	**—**

Due to their short-term nature, the carrying values of certain financial instruments are assumed to approximate their fair values. These financial instruments include deposits with regulated financial institutions, customers' liability under acceptances, other assets, acceptances, cheques and other items in transit and other liabilities.

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

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

21. Fair values of financial instruments (continued)

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.

22. Fair value of assets and liabilities by category and level

The Branch 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 Branch'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 - Financial Instruments Disclosures 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.

23. Authorization of financial statements

The financial statements of the Branch were authorized by its Principal Officer for issue on February 27, 2019 and prepared in accordance with IFRS.