SBI Canada Bank

Basel II Pillar 3 Disclosures as of December 31, 2018

Note to Readers

This document is prepared in accordance with OSFI expectations (OSFI letters dated July 13, 2011 on Implementation of disclosures for Basel II Pillar 3 enhancements and revisions, and June 14, 2012 on Basel Pillar 3 public disclosures) on inclusion full qualitative and quantitative disclosures applicable to SBI Canada Bank as required on an annual basis.

The Pillar 3 Disclosures for 2018 as of December 31, 2018, have been prepared in accordance with regulatory capital adequacy concepts and rules, rather than in accordance with International Financial Reporting Standards ("IFRS"). Therefore, some information in the Pillar 3 Disclosures is not directly comparable with the financial information in the Bank's Annual Report (audited) for 2018.

On June 26, 2012, the Basel Committee on Banking Supervision (BCBS) issued its final rules on the information banks must publicly disclose when detailing the composition of their capital. Entitled, Composition of capital disclosure requirements (subject to Basel III) which sets out a framework to ensure that the components of banks capital bases are publicly disclosed in standardized formats across and within jurisdictions for banks. Beginning with –Q3 2013, non-Domestic Systemically Important Banks (non-DSIBs as determined by OSFI) are required to disclose a modified version of the Capital Disclosure as described in the OSFI Advisory "Public Capital Disclosure Requirements related to Basel III Pillar 3" dated July 2013. Beginning with Q4 2015, non-DSIBs are also required to disclose the Leverage Ratio as described in the OSFI's guideline "D-12 Public Disclosure Requirements related to Basel III Leverage Ratio" dated September 2014.

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Background

SBI Canada Bank (the "Bank") is a wholly owned subsidiary of State Bank of India (the "parent bank") and is licensed to operate in Canada as a bank with full banking powers under the Bank Act (Canada) as a foreign bank subsidiary. The Bank has no subsidiaries or entities for consolidation. The Bank's registered office is at Suite 106, 77 City Centre Drive, Mississauga, Ontario, Canada L5B 1M5 Canada. The Bank is involved in corporate and retail banking.

The Bank has adopted the Capital Adequacy Requirements ("CAR") guideline issued by OSFI under Basel II with effect from January 1, 2008. The Basel II framework consists of the following three-mutually reinforcing pillars:

- Pillar 1: Minimum capital requirements for credit risk, market risk and operational risk
- Pillar 2: Supervisory review of capital adequacy
- Pillar 3: Market discipline.

Market discipline (Pillar 3) comprises disclosures on the capital adequacy and risk management framework of the Bank.

Public Disclosure Policy

The Bank has implemented a Public Disclosure Policy to comply with the various disclosure requirements that apply to the Bank. This policy defines the approach used by the Bank for providing the applicable disclosures as well as the internal control process implemented by the Bank for complying with the disclosure requirements. This policy is approved by the board of directors and is subject to annual review and approval.

Basis of Disclosures

1. Scope of Application of Pillar 3 Requirements

The Pillar 3 disclosures of the Bank have been prepared in accordance with International Convergence of Capital Measurement and Capital Standards: A Revised Framework Comprehensive Version (the Basel II framework) issued by the Basel Committee on Banking Supervision ("BCBS") in June 2006. Subsequently BCBS issued Enhancements to the Basel II Framework in July 2009 and Revisions to the Basel II Market Risk Framework in February 2011 followed by Pillar 3 Disclosure Requirements for Remuneration in July 2011. The third pillar of this framework describes the disclosure requirements for institutions subject to the Basel Accord, which in Canada includes banks, bank holding companies and federally regulated trust and loan companies (the "institutions").

Basis of Measurement

The Pillar 3 disclosures have been prepared in accordance with the OSFI's disclosure requirements issued from time to time.

Functional and Presentation Currency

The Pillar 3 disclosures are presented in Canadian currency, which is the Bank's functional currency. Except as otherwise indicated, financial information presented in Canadian dollars has been rounded to the nearest thousand.

Frequency of Disclosures

The Pillar 3 disclosures are made on an annual basis and published after the audit of the yearend financial statements. In addition, quantitative disclosures on regulatory capital ratios and leverage ratio are published on a quarterly basis.

Location of Disclosures

The Pillar 3 disclosures are located under the "Regulatory Disclosures" link on the home page of the Bank's website www.sbicanada.com.

Limitation of Disclosures

The Pillar 3 disclosures are unaudited and have been prepared purely for complying with OSFI's disclosure requirements explaining the basis on which the Bank has prepared and disclosed information about capital requirements and the management of certain risks and for no other purpose. They do not constitute any form of financial statements and may not be relied upon in making any judgment or investment on the Bank or the Parent Bank.

2. Capital Structure

Qualitative Disclosures

The Bank is authorized to issue an unlimited number of common shares at par value of $100 Canadian dollars.

As at December 31, 2018, the Bank has subordinated debt issued to its parent bank in the amount of $20,000 on December 31, 2010 which in the event of the winding up of the Bank, is unsecured and subordinated to all of the Bank's deposits liabilities and all other liabilities. The subordinated debt is measured at amortized cost, using the effective interest method.

The subordinated debt bears interest at the rate of six months CDOR plus 1% per annum, payable semi-annually in arrears, until its maturity date of December 31, 2025. At the Bank's option, the subordinated debt may be redeemed or purchased by the Bank, with the prior written approval of OSFI to such redemption or purchase, on or after December 31, 2020.

On February 23, 2013, the Bank in discussions with OSFI and its parent bank amended certain terms of the subordinated debt instrument to comply with the requirements of Basel III and the guidance issued by OSFI whereby, under certain triggering events, the amount outstanding under the subordinated debt together with accrued and unpaid interest will automatically be converted into newly issued and fully paid common shares of the Bank.

Capital levels for Canadian banks are regulated pursuant to guidelines issued by OSFI. Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Total capital is defined as the total of Tier 1 and Tier 2 capital less deductions as prescribed by OSFI.

Quantitative Disclosures

Regulatory Capital	**Amount**
Common Equity Tier 1 Capital	
Common shares (Number of shares: 470,090)	117,784
Contributed surplus	5,934
Retained earnings	25,875
Accumulated other comprehensive income (loss)	(499)
Common Equity Tier 1 capital before regulatory adjustments	**149,094**
Total regulatory adjustments to Common Equity Tier 1	(65)
Total Tier 1 capital	**149,029**
Tier 2 Capital	
Subordinated debt	20,000
Eligible Stage 1 & Stage 2 allowances	2,916
Total eligible regulatory capital	**171,945**

3. Capital Adequacy

Qualitative Disclosures

The amount and composition of the Bank's capital requirement is determined by assessing the minimum capital requirement under Pillar 1 based upon the CAR guideline, the impact of stress and scenario tests, the Bank's risk appetite and the capital requirement that is consistent with the Bank's business plan.

Capital ratios are calculated by dividing Tier 1 and Total capital by risk-weighted assets ("RWA"). The calculation of RWA is determined by OSFI prescribed rules relating to on-balance sheet and off-balance sheet exposures and includes an amount for the market risk exposure associated with the Bank's trading portfolios.

In addition to the Tier 1 and Total capital ratios, Canadian banks are required to ensure that their leverage ratio, which is calculated by dividing Tier 1 capital by exposure measure, meets or exceeds a minimum level prescribed by OSFI.

Internal Capital Adequacy Process ("ICAAP")

The Bank has a detailed Internal Capital Adequacy Process in accordance with OSFI expectations. The ICAAP covers the following six main components:

(i) Board and senior management oversight;

(ii) Sound capital assessment and planning;

(iii) Comprehensive assessment of risks;

(iv) Stress testing;

(v) Monitoring and reporting; and

(vi) Internal control review.

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

Through the internal governance processes, the Bank's senior management is responsible for the investment and capital allocation decisions and assessments and ensures that returns on investment are adequate after taking account of capital (capital vs. risk) requirements. The Bank prepares its strategic business plan including capital forecasts within its Annual Budget and Capital planning process.

As at December 31, 2018 the bank is in compliance with the requirements for leverage ratio, risk-based Tier 1 and capital ratios

Quantitative Disclosures

The Bank determines its Pillar 1 regulatory capital requirement based on the following approaches:

a) **Credit risk -** Standardized Approach

b) **Market risk -** The Bank is not an internationally active institution as at December 31, 2018 and thus the market risk framework was not applicable. Also, as required by OSFI's CAR Guideline, the trading book exposures have been included as part of the banking book exposures.

c) **Operational risk —** Basic Indicator Approach

Standardized approach - credit risk asset classes	**Risk-weighted assets**
Banking book	
Corporate	924,019
Sovereign	-
Bank	40,648
Retail residential mortgages	25,175
Other retail	7,849
Other credit risk-weighted assets	7,345
Securitizations	-
Total adjusted risk-weighted assets for credit risk	**1,005,036**
Standardized approach	
Market risk	**-**
Basic indicator approach	
Operational Risk	**43,872**
Total adjusted risk-weighted assets	**1,048,908**

The following table summarizes the Bank's regulatory capital ratios and leverage ratio as at December 31, 2018:

Regulatory capital ratios	
Tier I capital (%)	14.21%
Total capital (%)	16.39%
Leverage ratio	12.79%

Risk Exposure & Assessment

As a financial intermediary, the Bank is exposed to various types of risks. The objective of the risk management framework at the Bank is to ensure that the key risks facing the Bank are identified, understood, measured and monitored and that the policies and procedures established to address these risks are strictly adhered to.

The key principles underlying the risk management framework at the Bank are:

(a) The Board of Directors has oversight over the risks assumed by the Bank. Specific Board Committees have been constituted to facilitate focused oversight over these risks.

(b) Policies approved from time to time by the Board of Directors form the governing framework for each type of risk. The business activities are undertaken within this policy framework.

(c) There is an independent Risk Management Department in the Bank to facilitate independent evaluation, monitoring and reporting of risks and which functions independently of the business.

The key risks that the Bank is primarily exposed to include credit, market (including interest rate risk and foreign exchange risk), liquidity risk and operational risk. The approach of management to handle the key risks facing the Bank is outlined below:

4. Credit Risk: General Disclosures

Qualitative Disclosures

Credit risk is the risk that unexpected losses may arise as a result of the Bank's borrowers or market counterparties failing to meet their obligations to pay. The Bank's Credit Risk Management Policy (the "CRMP"), which is approved by its Board of Directors describes the principles that underlie and drive the Bank's approach to credit risk management, together with the systems and processes through which it is implemented and administered. The CRMP aims to maximize the Bank's risk-adjusted rate of return whilst maintaining the Bank's credit risk exposure within limits and parameters, as approved by the Board of Directors of the Bank.

The Bank takes a three-tier approach to assessment of commercial credit risk - a commercial first line officer (credit) proposing the transaction followed by an independent second line review by a Risk Management officer, then a credit committee assessment of the proposal. The CRMP lays down a structured and standardized credit approval process, which includes a well-established procedure of independent and comprehensive credit risk assessment and the assignment of an internal risk rating to the borrower. The risk rating is a critical input for the credit approval process and is also an input in arriving at the credit risk spread and level of collective allowance for the proposal.

With respect to retail loans, there is also a three-tier approach — an officer proposing the transaction followed by an assessment of the same by a designated officer with suitably delegated authority and where this is in excess of the delegated authority or when there are deviations in a file by an independent credit committee.

The approval process is delegated to various officials and committees as per the guidelines approved by the Board of Directors. Credit proposals are approved by these officials and committees based on, among other things, the amount and internal risk rating of the facility. There is a Corporate Credit Committee (the "CCC") which recommends all proposals that are beyond its powers for consideration of the Risk Management Committee of the Board/Board of Directors. All credit customers of the Bank are rated using credit risk rating models approved by the Board. There are different models in use which have been implemented to deal with the different portfolio segments of the Bank (commercial loans, commercial real estate, large corporate and syndicated loans, India-based syndicated loans, hotel/motel loans and retail mortgages). All credit risk rating models are calibrated to a common borrower risk rating scale of SBIC 0-16.

Monitoring credits, whilst ongoing, can also be triggered by any credit event deemed material by Credit group using its judgment, coming to the Bank's notice through either primary or secondary sources. All commercial and corporate borrower accounts are reviewed at least on an annual basis in accordance with Bank policy. If adverse developments come to the Bank's notice through such regular reviews this can trigger further action such as "watch listing" the account or other actions as deemed prudent in the circumstances in accordance with Bank policy and good lending practices generally.

Credit risk is also managed at the portfolio level by monitoring and reporting to the CCC and the Risk Management Committee ("RMCB") of the Board/Board of Directors on various key parameters of risk. . Overall, the Credit group and Risk Department group prepare comprehensive monthly and quarterly reports on various credit risk parameters and portfolio data for the review and approval of RMCB and the Board.

The Bank has a comprehensive set of industry, geographic, security status and other portfolio level limits to control concentration risk across various measures. The Bank is fully compliant with all of these limits and this is confirmed at approval of any new transaction and on a quarterly basis, at minimum.

Impairment of loans and allowance for credit losses

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

- Significant financial difficulty of the borrower;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- A high probability the borrower will enter bankruptcy or a financial reorganization;
- A measurable decrease in the estimated future cash flows from the loan or the underlying assets that

back the loan; and

- The Bank for economic and other reasons relating to the borrower's financial difficulty, granting the borrower a concession that the Bank would not otherwise consider.

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

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

The following table presents the gross loans outstanding as at December 31, 2018 that were neither past due nor impaired:

	$
Risk Rating Categories:	
Satisfactory (SBIC0 through 12)	948,351
Especially mentioned (SBIC 13)	10,017
Substandard (SBIC14)	19,107

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

As at December 31, 2018, the total gross impaired loans were $Nil against which an allowance of $Nil was recorded.

Individually assessed loans and advances

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

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

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

debt obligations; and

- The extent of other creditors' commitment which ranks ahead of the Bank.

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

Collectively assessed loans and advances:

Impairment is assessed on a collective basis (in accordance with IFRS 9 requirements) to cover:

- Losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- Losses from a homogeneous group of loans that are not considered individually significant.
  - This allowance is called the Expected Credit Loss (“ECL”).

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

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

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

Write-off of loans and advances:

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

Reversals of impairment

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

Credit Risk Mitigation

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

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

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

The most common method of mitigating credit risk is to take collateral, which is most usually done in commercial lending, commercial mortgage lending, and sometimes lending to sub-investment grade large corporate borrowers. Collateral in the form of a mortgage is invariably taken in the case of retail mortgages.

Quantitative Disclosures

Total Gross Credit Exposure – Broken down by major types of Credit Exposures

(in thousands of Canadian dollars)

	On balance sheet exposure	Undrawn commitments	OTC derivatives	Other off-balance sheet items	Total	RWA
Corporate	878,942	41,199	-	12,698	932,839	924,019
Sovereign	23,759	-		-	23,759	-
Bank	75,605	-	2,030	-	77,635	40,648
Residential Mortgages	100,949	-	-	-	100,949	25,175
Other Retail	19,207	-	-	-	19,207	7,849
Other	5,366	-	-	-	5,366	7,345
Total Gross Credit Exposure	**1,103,828**	**41,199**	**2,030**	**12,698**	**1,159,755**	**1,005,036**

Geography Distribution of Exposures - Broken down in significant areas by major types of Credit Exposure

(in thousands of Canadian dollars)

	On Balance sheet exposure	Undrawn commitments	OTC Derivatives	Other Off Balance Sheet Items	Total
Canada	946,034	41,199	1,587	12,698	1,001,518
United States	125,298	-	-	-	125,298
India	31,183	-	37	-	31,220
Other countries	1,313	-	406	-	1,719
Total	**1,103,828**	**41,199**	**2,030**	**12,698**	**1,159,755**

Industry - Broken down by major types of Credit Exposure

(in thousands of Canadian dollars)

	On Balance sheet exposure	Undrawn commitments	OTC Derivatives	Other Off Balance Sheet Items	Total
Sovereign	**23,759**	-	-	-	**23,759**
Bank	**75,605**	-	**2,030**	-	**77,635**
Financial Service	**55,931**	**3,110**	-	**1,362**	**60,403**
Manufacturing	**86,699**	**4,793**	-	**2,610**	**94,102**
Mining	**16,865**	-	-	**712**	**17,577**
Real Estate	-	-	-	-	-
Transportation	**245,311**	**482**	-	**1,231**	**247,024**
Pipeline transportation	-	**15,500**	-	**3,900**	**19,400**
Communications	-	-	-	-	-
Wholesale trade	**3,204**	-	-	**110**	**3,314**
Retail	**21,116**	-	-	-	**21,116**
Service	**90,362**	**9,325**	-	**2,733**	**102,420**
Multi-product conglomerates	-	-	-	-	-
Residential mortgages	**193,937**	-	-	-	**193,937**
Non-residential mortgages	**274,724**	**7,989**	-	-	**282,713**
Other	**16,315**	-	-	**40**	**16,355**
Total	**1,103,828**	**41,199**	**2,030**	**12,698**	**1,159,755**

Residual Contractual Maturity Breakdown of the Whole Portfolio - Broken down by major types of Credit Exposures

	1 to 14 days	15 days to 1 month	1 to 3 months	3 - 6 months	6 - 12 months	1 to 3 years	3 to 5 years	Above 5 years	TOTAL
	$	$	$	$	$	$	$	$	$
Cash	842	-	-	-	-	-	-	-	842
Balances with banks	20,000	-	13,097	-	-	-	-	-	33,097
Money market placements	13,300	-	-	-	-	-	-	-	13,300
Investments	-	-	-	27,165	-	44,760	-	-	71,925
Loans & advances, net of allowances for credit losses	19,306	19,671	13,066	18,800	52,649	377,428	332,060	141,647	974,627
Others	42	14	-	-	3	-	89	6,973	7,121
Total Asset	53,490	19,685	26,163	45,965	52,652	422,188	332,149	148,620	1,100,912

Allowance and Impaired Loans

	Individual Allowances	Collective Allowances	Total Allowances	Impaired loans
	$	$	$	$
Corporate	-	2,589	2,589	-
Sovereign	-	-	-	-
Bank	-	-	-	-
Retail Residential Mortgages	-	248	248	-
Other Retail	-	10	10	-
Other	-	-	-	-
Total Gross Credit Exposure	-	2,847	2,847	-

Reconciliation of changes in the allowances for loan impairment against credit counterparties

Specific allowance for impairment:	
	$
Balance at January 1, 2018	12,604
Impairment loss for the year:	
Charges for the year	-
Recoveries	(3,316)
write-offs	(9,518)
Other movements	230
Balance at December 31, 2018	-
Collective allowance for impairment	
Balance at January 1, 2018	3,121
Impairment loss for the year:	
Charges for the year	(1,185)
Other movements	911
Balance at December 31, 2018	2,847
Total allowance for credit losses	2,847

Risk Weighted Net Exposures after Risk Mitigation

	0%	20%	35%	100%	150%	250%
Standardized approach	73,963	44,242	71,930	968,396	-	1,224

5. Credit Risk: Disclosures for Portfolios subject to the Standardized Approach

Credit assessment of Sovereign	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Bank Risk Weight	20%	50%	100%	100%	150%	100%

Qualitative and Quantitative Disclosures

The Bank is using the Full Standardized Approach. This approach incorporates information from external credit assessment institution (ECAI) for claims on sovereign, Canadian provincial governments and eligible agents of the Canadian federal and provincial government. The information from ECAI is not used for corporate exposure as the Bank defaults those to 100%. For exposures to banks (and eligible securities firms), the information from ECAI is used in applying the appropriate risk weightings. Such information relates to the credit assessment of the sovereign in the bank's country of incorporation. The Bank uses Standard and Poor's (S&P) for the information required for this approach.

6. Credit Risk: Disclosures for Portfolio subject to IRM Approach

The Bank uses the Standardized Approach; therefore, IRM approach is not applicable.

7. Credit Risk Mitigation Disclosures for Standardized Approaches

Qualitative Disclosures

Collateral and other security enhancements:

The Bank mainly takes collateral over real estate assets, current assets of operating businesses, and general fixed and floating charges over all assets; each situation depends upon many different factors regarding the credit structure and risk assessment.

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

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

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are updated at each annual credit review, when a loan is renewed, or when it becomes individually assessed as impaired.

Quantitative Disclosures

	Eligible financial collateral	Eligible guarantees
	$	$
Corporate	4,795	-
Sovereign	-	-
Bank	-	-
Residential Mortgages	-	29,020
Other Retail	11,358	-
Other	-	-
Total Gross Credit Exposure	16,153	29,020

8. General Disclosures for Exposures related to Counterparty Credit Risk

Qualitative Disclosures

Derivatives

In the ordinary course of business, the Bank uses derivative financial instruments, primarily over-the-counter foreign exchange contracts and interest rate contacts to manage its exposure to currency and interest rate fluctuations, as part of the Bank's asset liability management program.

The Bank economically hedges exposure on its assets and liabilities by entering into foreign exchange contracts and interest rate contacts. These derivatives are not designated for hedge accounting and are carried at fair value, with changes in fair value being recorded in other income.

Notional amounts of derivative contracts serve as reference for calculating payments and are a common measure of business volume. The following is a summary of the notional amounts, by remaining term to maturity, of the Bank's derivative positions at the statement of financial position date:

	Within 1 year	1 to 5 years	Over 5 years	Total
	$	$	$	$
Foreign exchange contracts	189,538	-	-	189,538
Interest rate contracts	-	18,821	-	18,821
	189,538	18,821	-	208,359

The following is a summary of the fair value of the Bank's derivative portfolio at the statement of financial position date classified by positive and negative fair values:

	Positive fair value	Negative fair value	Net fair value
	$	$	$
Foreign exchange contracts	1	(1,354)	(1,353)
Interest rate contracts	76	(2)	74
	77	(1,356)	(1,279)

Current replacement cost is the positive fair value of outstanding derivative financial instruments, which represents the Bank's derivative credit exposure.

Credit equivalent amount is the current replacement cost for favorable contracts plus an amount for the future credit exposure associated with the potential for future changes in currency rates for the contracts. Future credit exposure is calculated using a formula prescribed by OSFI.

Risk-weighted amount represents the credit equivalent amount weighted according to the creditworthiness of the counterparty, using factors prescribed by OSFI.

The following is a summary of the Bank's derivative positions and related credit exposures as at December 31, 2018:

	Current replacement cost	Credit equivalent amount	Risk-weighted amount
	$	$	$
Canada			
Foreign exchange contracts	-	1,451	290
Interest rate contracts	76	170	61
Other Countries			
Foreign exchange contracts	1	409	85
Interest rate contracts	-	-	-
	77	2,030	436

9. Securitization

The bank has not securitized its own assets or has not sponsored any securitization programs as of December 31, 2018

10. Market Risk: Disclosures for Banks using the Standardised Approach

Qualitative Disclosures

Market risk is the uncertainty of earnings faced by the Bank as a result of volatility in market factors (i.e., interest rates, exchange rates, asset prices, etc.). The policies approved by the Board of Directors for addressing market risk are Security and Investment Policy and Enterprise Risk Management Policy. The Asset Liability Management Committee ("ALCO") considers various investment and treasury operations matters, including the implementation of risk mitigation measures. Furthermore, an independent Treasury Back Office is set up to monitor and report the various risk limits.

The key risks to which the Bank is exposed from a market risk perspective relate to

a) Interest rate risk:

Interest rate risk in the banking book is the change in the bank's portfolio value due to interest rate fluctuations.

Managing interest rate risk is a fundamental component in the safe and sound management of SBI Canada Bank. Sound interest rate risk management involves prudently managing mismatch positions in order to control, within set parameters, the impact of changes in interest rates on SBI Canada Bank's earnings. Significant factors that are considered in managing the interest rate risk in the banking book include the frequency, volatility and direction of rate changes, the slope of the interest rate yield curve, the size of the interest - sensitive position and the basis for reprising at rollover dates.

SBI Canada Bank's objectives for its interest rate risk management program are:

- to determine the extent to which the bank is willing to assume interest rate risk
- to establish explicit and prudent limits on bank's interest rate risk exposure.

The tolerance to assume interest rate risk will vary with the extent of other risks (e.g., liquidity, credit risk, foreign exchange risk, investment risk, etc.) and the ability to absorb potential losses. As with other aspects of financial management, a trade-off exists between risk and return. Although a fully matched position eliminates interest rate risk, such a position may not be desirable for other sound business reasons. The objective of interest rate risk management program is not necessarily the complete elimination of exposure to changes in interest rates. Rather, it is to manage the impact of interest rate changes within limits set after careful consideration of a range of possible interest rate environments.

Interest rate risk limits are set within SBI Canada Bank's overall risk profile, which reflects factors such as its capital adequacy, liquidity, credit quality, investment risk, foreign exchange risk, etc. Interest rate positions are managed within the Bank's ability to offset such positions, if necessary. Interest rate risk limits are reassessed on a regular basis to reflect potential changes in interest rate volatility, the Bank's overall risk philosophy and risk profile.

The Board of Directors of SBI Canada Bank has oversight responsibilities for risk management, including interest rate risk in the banking book. The bank has adopted the three lines of defense model with the operations units being the first line of defense, the Chief Risk Officer being the second line of defense and the Internal Auditor being the third line of defense. Interest rate risk management is part of the Enterprise Risk Management policy; this policy is reviewed and approved annually by the Board of Directors. The bank has a risk appetite statement approved by the Board of Directors which includes the appetite for interest rate risk.

The bank uses gapping technique to measure the mismatches in the interest rate reprising time bands of assets and liabilities. The day to day measuring and monitoring of interest rate risk is done by the VP (Treasury). The overseeing of interest risk rate measurement and risk monitoring as well as control procedures is done by the Chief Risk Officer of the bank. The interest rate sensitivity gap arising out of re-pricing date mismatch is monitored and reported to the Asset Liability Management Committee at least monthly and to the Risk Management Committee of the Board of Directors at least quarterly.

One way to eliminate the risk arising out of the interest rate positions is to match the re-pricing dates of assets and liabilities. However, a totally square position in interest rates is not feasible and the bank has to carry some amount of interest rate position on its balance sheet. The use of hedging techniques is one of the means of managing and controlling interest rate risk. Some hedging instruments that the bank may use include Interest Rate Swaps and Currency Swaps.

b) Foreign exchange risk:

The risk arises due to positions in non-Canadian dollar-denominated assets and liabilities in those currencies. The risk originates as a result of the impact on revenue due to the potential revaluation of non-Canadian dollar assets and liabilities. The aggregate net overnight open exchange position across all foreign currencies as per Enterprise Risk Management Policy shall not exceed U.S. $6 million.

c) Liquidity risk:

Liquidity risk is the potential for losses to be incurred from holding insufficient liquidity to survive a contingent stress event, whether name-specific or market-wide in origin. It includes both the risk of unexpected increase in the cost of funding the assets and the risk of being unable to liquidate investments in a timely manner at a reasonable price.

The principal objective of liquidity management is the availability of funds, or assurance that funds will be available at a reasonable price, to honor all cash outflow commitments (both on and off balance sheet) as they become due and provide funding for maintenance and development of business. These commitments are generally met through cash flows, supplemented by assets readily convertible to cash or through SBIC's capacity to borrow.

Liquidity management is conducted within the context of a strategic liquidity plan under ordinary or reasonably expected business conditions, in conjunction with other asset & liability management considerations, such as interest and foreign exchange rate risks and other risks. However, since liquidity determines the day-to-day viability of SBIC, it is the principal consideration of SBIC's asset & liability management program.

SBI Canada is not an internationally active institution. Its liquidity risk management practices are centrally managed from its Head Office in Mississauga. The bank has a Liquidity Management Policy to prudently manage and control its liquidity activities. The management of liquidity risk is outlined in the Enterprise Risk Management (ERM) policy of the bank. The bank also has a Risk Appetite Statement in which quantitative metrics and limits have been specified for liquidity risk appetite, including those related to Liquidity Coverage Ratio, contractual maturity mismatch, concentration of funding etc. The Board of Directors reviews and approves the Liquidity Management Policy, ERM policy and Risk Appetite Statement presented by the Senior Management. The VP Treasury under the guidance of Chief Financial Officer has the responsibility for managing and controlling the day-to-day liquidity according to the Liquidity Management Policy. Senior management also regularly monitors the positions taken on a daily basis. As on December 31, 2018, all the liquidity metrics were within the risk appetite parameters of the bank. Senior Management ensures that adequate liquidity is maintained at all times through systematic funds planning and maintenance of liquid investments, as well as by focusing on more stable funding sources, such as retail deposits in the long term.

The ALCO monitors the liquidity position of the Bank and the liquidity management activities undertaken by the Bank, including wholesale funding activities, contingency funding and any other relevant liquidity measurements. The ALCO is responsible for monitoring the limits set by the Board. In addition, liquidity stress testing analysis is regularly performed to assess the Bank's ability to withstand an extreme crisis situation. The stress scenarios considered include bank specific short term liquidity strain, bank specific medium to long term liquidity strain caused by events such as loss of reputation / rating downgrade of Parent Bank, market specific liquidity strain because of economic recession / market disruption, a combined scenario arising from market disruption resulting in loss of confidence in the bank The liquidity stress test results are reviewed by the ALCO, Risk Management Committee of the Board and the Board of Directors at periodic intervals.

The composition and size of the stock of liquid assets of SBIC as on December 31, 2018, with a description of the assumptions employed is given below:

Total Stock of HQLA (weighted amount) as of December 31, 2018 is C$ 28,654

Bank maintains stock of highly liquid assets on the assumption that these assets are easily convertible to cash, has an active and sizeable market, ease and certainty of valuation, low correlation with risky assets and low volatility. It has been assumed that these stocks can be converted to cash without taking any significant haircut.

Quantitative Disclosures

The Enterprise Risk Management Policy currently sets out the measurement process to include the use of repricing gap reports and estimation of the sensitivity of the Bank's net interest income to a 200-basis-point adverse change in the level of interest rates. The adverse impact of a200 basis-point parallel shift in interest rates shall not exceed 5% of the Bank's net capital funds as at the end of the previous year. Based on the Bank's interest rate positions at December 31, 2018, an immediate and sustained 10, 25, 100, 200 basis point rise in interest rates across all currencies and maturities (a parallel shift) would decrease net income before income taxes by approximately 0.15 million, $0.38 million, $1.51million, $3.02 million over the next 12 months.

In the event of a 200 bps rise in interest rates (parallel shift), there will be an adverse impact of 1.76% on the capital. The impact of three non-parallel shifts in interest rates is estimated at $4.44 million.

An analysis of the Bank's interest rate risk by the contractual reprising or maturity dates, whichever is earlier:

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

11. Market Risk: Disclosures for Banks using the Internal Model Approach for Trading Portfolios

The Bank does not use Internal Model Approach.

12. Operational risk

Qualitative Disclosures

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputation risk.

The operational risk management in SBI Canada Bank is based on well-established principles and sound practices for operational risk management. These are:

a) Have a clear understanding of the bank's operational risk profile, including the internal and external sources of operational risk to the bank

b) Establish an appropriate tolerance or appetite, which may include a range of qualitative and or subjective statements, as appropriate, for the types and level of operational risk the bank may take on,

c) Have clear understanding of the impact of applying the operational risk approach at the bank

d) Review policies for the management of significant operational risk exposures and management practices

e) Review operational risk reports, as appropriate, like operational risk capital charge, relevant operational risk data including material losses etc.

f) Be satisfied that the operational risk management and measurement processes and systems are sound and remain effective over time and

g) Review any material strategic changes to the Bank's operational risk profile.

h) Ensure that the Bank's operational risk management framework is subject to effective and comprehensive internal audit in order to receive assurance regarding its effective application

SBI Canada Bank has an operational risk management framework, based on its enterprise risk management framework that consists of the following:

a) A formal risk governance structure

The Board of Directors of SBI Canada Bank acting through the Risk Management Committee of the Board has oversight responsibilities for risk management. The Risk Management Committee ("RMC"), comprising senior management, is responsible for the review of the risk management framework. The bank has adopted the three lines of defense model in respect of Operational Risk Management. The operations units (Branches) and other corporate units including the Chief Operating Officer are the first line of defense in the day to day management of risks pertaining to their area of operations. The Chief Risk Officer is an independent function who forms the second line of defense. The Internal Auditor is the third line of defense.

b) An operational risk policy and associated procedures

This policy is part of the bank's Enterprise Risk Management policy and is reviewed and approved annually by the Board of Directors. The Bank has implemented its risk control and self-assessment approach to identify and ensure effective control of its operational risks.

To identify operational risks in new products/processes, all such proposals are examined by the Bank Management Committee, comprising senior management, after obtaining inputs from all the relevant groups and control functions in the Bank.

The Bank has developed and implemented a Business Continuity Plan ("BCP"). This plan is designed to facilitate continuity in critical business operations in the event of a disaster or an emergency situation. The BCP has been formulated on the basis of a business impact analysis carried out for the individual groups involving identification of critical activities and determination of their recovery time objectives.

The Bank has developed and implemented an Outsourcing Policy to mitigate outsourcing risks and ensure the application of a standardized approach for all outsourcing arrangements entered into by the Bank. All proposed outsourcing arrangements are assessed for their criticality prior to outsourcing, and the proposal is approved by the Board of Directors.

c) Operational risk appetite and limit structure

The bank has an operational risk appetite statement approved by the Board of Directors.

d) Operational risk assessment tools

The bank has in place various operational risk management tools including audit findings, compliance reviews, risk and control self-assessments, business process mapping, internal loss data collection and analysis, key risk indicators, comparative analysis and scenario analysis.

e) Operational risk taxonomy

The bank has an operational risk taxonomy that provides a common language for operational risk terms to ensure consistency of risk identification, exposure rating and risk management objectives.

f) New product and initiatives process

The bank has a framework for approving and implementing new products and activities.

g) Reporting of operational risks

Operational risk issues are reported appropriately as required to the senior management, Board Committees and the Board of Directors.

h) Independent review and assessment of operational risks

The operational risk management framework is independently reviewed by Internal Audit.

i) Operational risk management training to employees

The bank provides training on operational risk management to its employees.

SBI Canada Bank uses the Basic Indicator Approach for calculating operational risk capital charges.

13. Interest Rate Risk in the Banking Book (IRRBB)

Qualitative Disclosures

Interest rate risk is discussed in section (i) under Market Risk Disclosure (page 19).

14. Remuneration paid to Key Management Personnel

Key management personnel ("KMP") are those persons who have authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The definition of KMP in IAS 24, Related Party Disclosures, specifies a role and is not limited to a person. KMP of SBI (Canada) include directors (both executive and non-executive) and other members of the management team with significant authority and responsibility for planning, directing and controlling the Bank's activities.

Members of the management team who are KMP include the President & Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer, Chief Compliance Officer, Chief Credit Officer and VP (Business Development).

Apart from director fees, the Bank does not extend any other benefits to independent (non-affiliated) Directors.

Remuneration of President & Chief Executive Officer, Chief Operating Officer and VP (Business Development) is determined and overseen by State Bank of India, the parent bank in accordance with its group remuneration policy. These officials received fixed remuneration.

Remuneration of Chief Financial Officer, Chief Risk Officer, Chief Compliance Officer and Chief Credit Officer is determined by Conduct Review Committee of the Board / Board. Some of these employees received remuneration with a variable component of compensation which is based on an established performance appraisal system. The Bank does not provide any non-cash based or deferred remuneration to management personnel. The Conduct Review Committee of the Board ensures that the Risk and Compliance employees are remunerated independent of the profit and business growth of the Bank.

During the year there was no change in the remuneration policy.

KMP compensation for the year ended December 31, 2018 was $1,603 thousands of which $150 thousands was director's fees.

In addition, during the year ended December 31, 2018 the Bank had disbursed personal loans to KMP in the amount of $Nil thousands whereby the balance outstanding as at December 31, 2018 is $2,012 thousands.