BASEL III PILLAR 3 DISCLOSURES

SEPTEMBER 30, 2019

STREET CAPITAL BANK OF CANADA
BASEL III PILLAR 3 DISCLOSURES
SEPTEMBER 30, 2019

NATURE OF OPERATIONS

Street Capital Bank of Canada ("Street Capital Bank" or "the Bank") is a Schedule 1 bank and a federally regulated financial institution. It operates as Street Capital Bank of Canada in English and Street Capital Banque du Canada in French. The Bank's primary business is the origination and sale of prime insurable and uninsurable mortgages. Its operations also include deposit taking and on-balance sheet non-prime single-family residential mortgage lending, all of which lending consists of first mortgages. With respect to its mortgages held on-balance sheet, the Bank targets a market segment that consists of credit-worthy borrowers who may not qualify for a prime residential mortgage. On a limited basis, the Bank also originates and securitizes insured multi-unit residential mortgages through the CMB program.

The Bank's head office is located in Toronto and the address of its registered office is 1 Yonge Street, Suite 2401, Toronto, Ontario, M5E 1E5.

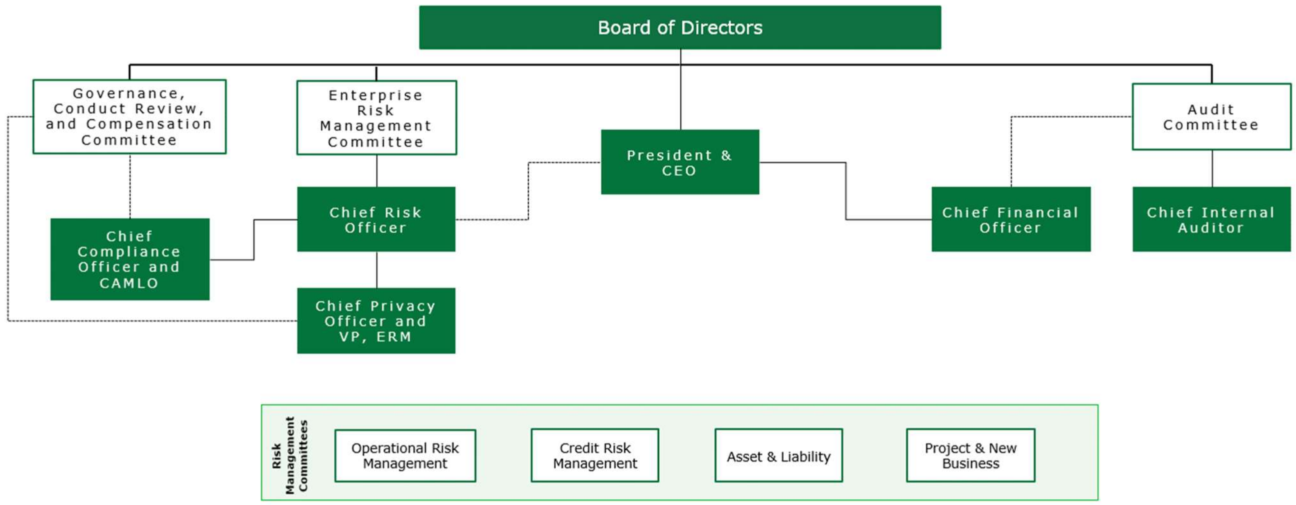
At September 30, 2019 the Bank was a wholly-owned subsidiary of Street Capital Group Inc. ("Street Capital" or "the Company"), a public corporation traded on the Toronto Stock Exchange ("TSX") under the ticker symbol "SCB". On October 18, 2019, in a transaction that was announced on June 17, 2019 and which was approved by Company shareholders on August 16, 2019, all of the issued and outstanding common shares of Street Capital were acquired by RFA Capital Holdings Inc. ("RFA"), a non-publicly traded entity, for $0.68 per share in cash. The transaction is described in a *Notice of Special Meeting of Shareholders and Management Information Circular* dated July 11, 2019, which is available on SEDAR (*www.sedar.com*). Following the transaction, on October 21 Street Capital was delisted from the TSX and ceased to be a reporting issuer in every province of Canada in which it was a reporting issuer. Therefore, at the date of filing these Basel III Pillar 3 disclosures (the "Disclosures"), the Bank was a wholly-owned subsidiary of a private company.

BASIS OF PREPARATION

The Disclosures, which are unaudited, represent the Basel III Pillar 3 disclosures for the Bank, and are made pursuant to the Office of the Superintendent of Financial Institutions ("OSFI") requirements, which are based on the global standards that have been established by the Basel Committee on Banking Supervision. The amounts presented are based on the Bank's annual and interim financial statements, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). For the interim and annual periods over the period from Q1 2017 to Q2 2019, the Disclosures, with the exception of Capital and Leverage Ratio tables (which were posted on the Bank's website), were included in the public filings of Street Capital, specifically the Interim and Annual Consolidated Financial Statements and the Quarterly and Annual Management's Discussion and Analysis. These filings are available on SEDAR and also on the Bank's website. The Disclosures should be read as an update to information previously reported in those public filings.

RISK GOVERNANCE

The governance framework shown below is in place to ensure appropriate risk oversight and accountability across the Bank.



The Board of Directors is responsible for establishing the overall strategy and objectives of the Bank and the Bank's overall risk appetite. The framework addresses the limits of the risks that the Bank assumes, and the Bank's conduct with respect to its stakeholders. The Bank's strategies and the management of its risks are supported by an overall enterprise risk management ("ERM") framework, which includes policies, procedures and guidelines for each major risk category of its operations. ERM requires the involvement of the Board of Directors, the Enterprise Risk Management Committee, senior management, and other employees to continually identify, measure, assess and manage risks that could affect the Bank either positively or negatively. At all levels of the Bank, ERM is applied in defining strategies and setting goals, helping to ensure that these can be accomplished within the Bank's defined risk appetite.

The Bank's risk governance follows the three lines of defense model:

- 1st Line of Defense: business units and their support areas. Management within each business unit is accountable for identifying, assessing, monitoring, reporting and managing the associated risks. The Bank deploys a computerized risk management tool to assist with compliance and reporting.

- 2nd Line of Defense: the Bank's Risk, Finance and Compliance departments. They are responsible for the communication and implementation of the Bank's risk management framework, along with independent assessment, monitoring and reporting on the Bank's risk-taking activities.

- 3rd Line of Defense: Internal Audit. This function is responsible for assessing the effectiveness of the Bank's governance, risk management and control processes, and for reporting their findings and conclusions to the Board of Directors. The Board's Audit Committee assists the Board with its oversight of the Bank's financial reporting and internal audit functions.

The Bank’s actual risk profile is measured against the Board-approved risk appetite at least quarterly, and reported to the Board of Directors. Key risk policies are reviewed at least annually and updated as required.

Specific risk areas are discussed in more detail below.

CAPITAL MANAGEMENT

Capital adequacy risk is the risk that the Bank holds insufficient capital to meet regulatory requirements and any other requirements necessary to manage the organization, including during periods of severe but plausible stress. As a regulated financial institution that is subject to regulatory capital requirements, the Bank must continually monitor and assess its capital adequacy. An adequate capital reserve provides the Bank with a buffer for reasonably foreseeable losses, ensures that the Bank may absorb such losses, and maintains the stability of the business. The Bank has a Board-approved Capital Management Policy (“CMP”) that is aligned with the Bank’s risk appetite and strategic plan. The CMP governs the quantity and quality of capital held, and ensures that it meets regulatory capital requirements, with an overall objective of ensuring that the Bank appropriately balances its capital allocation between retention of a prudent margin above regulatory capital adequacy minimums, and maintenance of sufficient freely available capital to achieve business goals and objectives.

The Bank manages its capital risk through both the CMP and the utilization of an Internal Capital Adequacy Assessment Process (“ICAAP”). The Bank’s risk identification and assessment process for capital adequacy risk includes:

- Escalation of current and emerging risks to the Asset and Liability Committee (“ALCO”) and the Enterprise Risk Management Committee of the Board (“ERMC”) and review of actual results against plan at least monthly

- Use of stress testing and scenario analysis to assess the potential impact of severe but plausible scenarios / stress tests

- Integration of business, financial and capital planning processes to assess adequacy of the capital to meet business and financial plans

- Consideration of capital implications for new business initiatives

- Capital contingency planning

At September 30, 2019 management’s assessment of the adequacy of the Bank’s capital concluded that the Bank was adequately capitalized to continue its then-current operations. However, as reported in previous periods, the Bank requires additional capital in order to execute on its business plans to further build its balance sheet.

Following its October 18, 2019 acquisition of Street Capital, RFA has caused the equity capital of the Bank to increase by $50 million. In addition, RFA has committed to cause its investors (the “Investors”) to provide an additional $25 million in readily available stand-by capital to the Bank. Subject to the Investors’ discretion and the achievement of certain performance targets, it is RFA’s intention to also cause the Investors to inject up to an additional $100 million of further equity capital into the Bank over the next five years to support balance sheet growth. RFA has also committed to provide the Bank with access to up to $5 billion of additional mortgage funding.

The Bank calculates capital ratios and regulatory capital based on the capital adequacy requirements issued by OSFI. These are based on *International Convergence of Capital Measurement and Capital Standards – A Revised Framework* ("Basel II") and *Basel III: A global regulatory framework for more resilient banks and banking systems – A Revised Framework* ("Basel III"). The Bank must maintain minimum levels of capital in order to meet minimum risk-based capital ratios based on Basel II and Basel III. The Bank's capital management policy addresses two regulatory capital requirements: the Leverage Ratio and the Risk-Based Capital Ratios.

The Leverage Ratio is defined as the Capital Measure divided by the Exposure Measure, with the ratio expressed as percentage. The Capital Measure is the Bank's all-in Tier 1 capital. The Exposure Measure consists of on-balance sheet, derivative, securities financing transactions and off-balance sheet exposures. The minimum leverage ratio for federally regulated deposit-taking institutions such as the Bank is 3%, and OSFI also establishes Leverage Ratio targets for each financial institution, which are confidential. The risk-based capital ratios are composed of the Common Equity Tier 1, Tier 1, and Total Capital Ratios. The Bank was fully compliant with its target regulatory capital and leverage ratio requirements at September 30, 2019.

The Bank's regulatory capital, capital ratios and leverage ratio framework are presented in the tables below.

	Regulatory Capital and Ratios	All-in
	Common Equity Tier 1 capital: instruments and reserves	
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	18,975
2	Retained earnings	85,237
3	Accumulated other comprehensive income (and other reserves)	646
4	*Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)*	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	
6	**Common Equity Tier 1 capital before regulatory adjustments**	104,858
	Common Equity Tier 1 capital: regulatory adjustments	
28	Total regulatory adjustments to Common Equity Tier 1	(1,577)
29	**Common Equity Tier 1 capital (CET1)**	103,281
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	
31	of which: classified as equity under applicable accounting standards	
32	of which: classified as liabilities under applicable accounting standards	
33	*Directly issued capital instruments subject to phase out from Additional Tier 1*	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	
35	*of which: instruments issued by subsidiaries subject to phase out*	
36	**Additional Tier 1 capital before regulatory adjustments**	-
	Additional Tier 1 capital: regulatory adjustments	
43	**Total regulatory adjustments to Additional Tier 1 capital**	
44	**Additional Tier 1 capital (AT1)**	-
45	**Tier 1 capital (T1 = CET1 + AT1)**	103,281
	Tier 2 capital: instruments and allowances	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
47	*Directly issued capital instruments subject to phase out from Tier 2*	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	
49	*of which: instruments issued by subsidiaries subject to phase out*	
50	Collective allowances	833
51	**Tier 2 capital before regulatory adjustments**	833
	Tier 2 capital: regulatory adjustments	
57	**Total regulatory adjustments to Tier 2 capital**	
58	**Tier 2 capital (T2)**	833
59	**Total capital (TC = T1 + T2)**	104,114
60	**Total risk-weighted assets**	
60a	**Common Equity Tier 1 (CET1) Capital RWA**	496,328
60b	**Tier 1 Capital RWA**	496,328
60c	**Total Capital RWA**	496,328
	Capital Ratios	
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	20.81%
62	Tier 1 (as percentage of risk-weighted assets)	20.81%
63	Total capital (as percentage of risk-weighted assets)	20.98%
	OSFI all-in target	
69	Common Equity Tier 1 capital all-in target ratio	7.00%
70	Tier 1 capital all-in target ratio	8.50%
71	Total capital all-in target ratio	10.50%

	Item	Leverage Ratio Framework
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	927,868
2	(Asset amounts deducted in determining Basel III "all-in" Tier 1 capital)	(1,577)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**926,291**
	Derivative exposures	
4	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with all derivative transactions	-
6	Gross up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivative transactions)	-
8	(Exempted CCP-leg of client cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**-**
	Securities financing transaction exposures	
12	Gross SFT assets recognised for accounting purposes (with no recognition of netting), after adjusting for sale accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	Counterparty credit risk (CCR) exposure for SFTs	-
15	Agent transaction exposures	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**-**
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	390
18	(Adjustments for conversion to credit equivalent amounts)	(312)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**78**
	Capital and Total Exposures	
20	**Tier 1 capital**	**103,281**
21	**Total Exposures (sum of lines 3, 11, 16 and 19)**	**926,369**
	Leverage Ratios	
22	**Basel III leverage ratio**	**11.15%**

CREDIT RISK

Credit risk is the risk of financial loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations. The Bank's credit risk is mainly associated with its mortgage lending activity, in the form of the risk of default on the part of the borrower. The Bank manages credit risk through both its Board of Directors ERM Committee ("ERMC"), and its senior management Credit Risk Committee ("CRC"). The ERMC meets at least quarterly, while the CRC meets at least monthly, to review risk factors in the Bank's lending portfolios. Adjustments to the Bank's credit risk limits and other aspects of its lending policies are made as identified and recommended.

The Bank's exposure to credit risk varies across its suite of mortgage lending portfolios. Historically, the majority of the Bank's revenue has been earned from the placement, servicing and securitization of prime insurable mortgages. Under this business model, most of the mortgages underwritten by the Bank are sold to institutional investors and are insured or insurable against default by CMHC and other government backed private insurers. This makes the associated residual credit risk to the Bank immaterial overall at this time.

Since Q2 2018 the Bank has also been originating prime uninsurable mortgages, for sale to investors, through its network of approved independent mortgage brokers. Prime uninsurable mortgages are mortgages that substantially approximate the credit quality criteria of prime insurable mortgages and are compliant with OSFI's Guideline B-20 *Residential Mortgage Underwriting Practices and Procedures* ("Guideline B-20"), but no longer qualify for mortgage insurance due to one or more criteria. The Bank bears credit risk for any loans it may have to reacquire from investors if such loans are deemed by the investor at a later date to be ineligible. To date, although the volume of prime uninsurable mortgages sold to investors continues to increase, the volume of returned loans has been minimal.

Since Q2 2017 the Bank has been funding on-balance sheet non-prime uninsured mortgages, which are funded with CDIC-insurance eligible deposits. These uninsured mortgages represent the Bank's most significant ongoing credit risk. The Bank mitigates its risk by targeting the market segment that consists of credit-worthy quality borrowers who may not qualify for a prime residential mortgage under current regulations, and by limiting its lending areas primarily to urban locations. The interest rates charged on these uninsured mortgages are higher than those for prime insurable mortgages.

Since Q3 2017, the Bank has been securitizing and selling, through the CMB program, 10-year insured NHA MBS mortgage loans on multi-unit residential properties. The underlying mortgage loans are closed to prepayment risk, and the Bank enters into third party arrangements to manage its seller swaps, thereby mitigating its interest rate risk. As a result, the Bank transfers control over the mortgage loans, and does not retain any significant risks and rewards associated with them. They are recognized on the Bank's balance sheet only to the extent of the Bank's continuing involvement in the mortgages, which is limited to a retained interest and the obligations and rights associated with servicing the mortgages. With respect to credit risk, the Bank would be obligated to fund any deficiency in any interest owing to CMB investors in the event that a loan became delinquent during the term of the loan, and to fund the balloon outstanding balance at maturity. However, as the loans under this program are insured, any funding by the Bank should be recoverable through an insurance claim, making the residual credit risk to the Bank very low.

In order to mitigate its credit risk on the mortgages it underwrites, the Bank applies a detailed set of Board-approved credit policies and underwriting procedures. Given the Bank's funding model for insurable mortgages, its underwriting and credit policies are compliant with Guideline B-20. With respect to its uninsured mortgages held on-balance sheet, the Bank has established appropriate credit policies and underwriting requirements, which are also in compliance with Guideline B-20. These policies take into consideration such key factors as asset quality, loan to value ratio, debt service ratio, property location, and economic factors At the individual transaction level the Bank applies a due diligence process to each mortgage underwritten, with oversight from an experienced management team. All mortgage applications are evaluated and assessed against risk criteria, and additional independent quality assurance procedures are performed on a significant percentage of mortgage files prior to funding. Post-funding reviews are also conducted in order to provide continuous feedback and monitoring of mortgage credit quality.

The Bank reviews the credit performance and credit quality of its mortgage portfolio on an ongoing basis and performs stress testing that includes scenarios that are based on adverse economic events. These scenarios include combinations of increasing unemployment, increasing interest rates and a decline in real-estate values, as well as specific operational and reputational stress tests. Generally, mortgage defaults are correlated to increases in unemployment rates, and in an economic downturn the Bank would expect an increase in mortgage defaults and losses on uninsured mortgages associated with declining real estate values. Given the size of the uninsured mortgage portfolio and the LTV ratios in the portfolio, the Bank's stress testing indicates that the Bank has sufficient capital to absorb stress events associated with an adverse economic event, albeit with reduced income due to increased credit losses, and from declines in revenue from expected decreases in prime origination volumes.

The Bank's mortgage origination, underwriting and quality assurance processes and controls are designed to provide a high level of assurance that the mortgages it originates comply with all underwriting requirements and do not contain misrepresentations or errors that would increase credit risk beyond the Bank's tolerance. However, there is no absolute assurance that certain employees, brokers or borrowers will not inadvertently or deliberately violate the Bank's underwriting or other policies, or misrepresent information in the mortgage application. Even with reasonable and prudent controls in place, these risks cannot be fully mitigated or eliminated and therefore the practices and processes continue to be evaluated and improved as required.

The Bank does business in all provinces except Quebec. The Bank's uninsured mortgages that are held on-balance sheet are concentrated in the provinces of Ontario and British Columbia. The Bank's NHA insured mortgages for multi-unit residential loans are concentrated in the provinces of Nova Scotia and Ontario, and approximately 71% of balances outstanding at September 30, 2019 are owed by six borrowers or borrowing groups. Aside from this, the Bank does not have any significant concentrations of credit risk within any geographic region or group of customers.

The Bank's credit risk on liquid assets, the majority of which are cash and cash equivalents, is relatively limited. All counterparties with respect to cash and cash equivalents are Schedule I Canadian banks with high credit ratings assigned by international rating agencies. The Bank can purchase highly liquid investments in the form of Government of Canada Treasury Bills and bankers' acceptances, and use them to meet its funding and liquidity requirements, particularly its mortgage lending operations. The investments are readily convertible into cash subject to immaterial changes in fair value, and therefore do not increase the Bank's credit risk.

Expected credit losses

The Bank follows the requirements of *IFRS 9 Financial Instruments* ("IFRS 9") to evaluate impairment of its mortgages and loans receivable that are held at amortized cost, and to calculate its expected credit losses ("ECLs") on these receivables. Under IFRS 9, the accounting for mortgage and other loan loss impairments is based on a forward-looking ECL model, and the calculated allowance is designed to be an unbiased and probability-weighted amount that has been determined by: evaluating possible outcomes; the time value of money; reasonable and supportable information about past events; and current and forecasted economic conditions. The general principle is that an entity's ECL should reflect the pattern of deterioration or improvement in the credit quality of the associated financial instruments, and therefore the calculated ECL at a given measurement date depends on the entity's identification of increases or decreases in credit risk since initial recognition. This involves significant management judgment.

Judgment is also required with respect to the model's sensitivity to changes in the key variables:

- changes in the credit quality of an individual borrower and/or individual mortgage loan;
- changes in the forward-looking macroeconomic variables used in the Bank's ECL models, and particularly in the variables that the Bank deems to be most correlated with changes in credit quality;
- changes in the design of the models that the Bank uses to model ECLs; and
- migrations of mortgage loans between stages.

The Bank has developed a model for calculating the ECLs of its uninsured mortgages. The model outputs are evaluated by management and may be adjusted by management to incorporate specific information or one-time events that have not been factored into the model's design.

An aging table for the outstanding principal balances of the Bank's mortgages and loans is shown below:

(in thousands of $)

						September 30, 2019
	Current	**1 - 30 days**	**31 - 60 days**	**61 - 90 days**	**> 90 days**	**Total**
Street Solutions mortgages	$ 539,355	$ 6,883	$ 3,574	$ 1,904	$ 719	$ 552,435
Securitized mortgages	91,007	-	756	-	-	91,763
Stamped insured mortgages	11,749	-	-	-	-	11,749
Single-family mortgages	17,360	-	-	-	-	17,360
Bridge loans - secured	682	-	-	-	-	682
Bridge loans - unsecured	840	199	-	-	-	1,039
Total non-securitized loans	$ 660,993	$ 7,082	$ 4,330	$ 1,904	$ 719	$ 675,028

The Bank's ECL on uninsured mortgages at September 30, 2019 is shown below:

(in thousands of $)	Three months ended September 30, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Uninsured mortgages and loans				
Gross carrying amount, beginning of period	$ 718	$ 162	$ 134	$ 1,014
Mortgages originated	9	-	-	9
Transfers from Stage 1	(133)	18	95	(20)
Transfers from Stage 2	146	(146)	-	-
Transfers to Stage 3	14	-	(14)	-
Mortgages paid or derecognized [1]	(43)	(24)	(106)	(173)
Remeasurement	(126)	238	-	112
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Gross carrying amount, end of period	$ 585	$ 248	$ 109	$ 942

	Nine months ended September 30, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount, beginning of period	$ 403	$ 178	$ 14	$ 595
Mortgages originated	571	-	-	571
Transfers from Stage 1	(250)	135	95	(20)
Transfers from Stage 2	200	(200)	-	-
Transfers to Stage 3	(99)	(28)	127	-
Mortgages paid or derecognized [1]	(114)	(75)	(127)	(316)
Remeasurement	(126)	238	-	112
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Gross carrying amount, end of period	$ 585	$ 248	$ 109	$ 942

At September 30, 2019, there are no expected credit losses on the Bank's securitized mortgage assets, or insured loans held on-balance sheet, as the mortgages are insured against default. No securitized mortgages were impaired at September 30, 2019. Further, all 10-year insured NHA MBS mortgage loans on multi-unit residential properties securitized through the CMB program and held off-balance-sheet were current as at September 30, 2019. Therefore, at September 30, 2019, the Bank has not required credit provisions on any of its insured mortgages.

As of September 30, 2019 the Bank had not recorded any write-offs relating to its uninsured loans held on-balance sheet.

LIQUIDITY AND FUNDING RISK

Liquidity and funding risk is the risk that the Bank is unable to generate or maintain sufficient funds, in a timely and reasonably priced manner, to meet its financial obligations as they come due. Effective management of liquidity risk requires that the Bank have sufficient liquid assets available, as needed, to fund new mortgages and to pay cash obligations such as deposit maturities and interest, accounts payable and accrued liabilities, and any other commitments and obligations.

The Bank has a low tolerance for liquidity and funding risk and has a Liquidity and Funding Management policy that is managed in conjunction with other policies, all of which are designed to ensure that cash balances and other high-quality liquid assets are a) sufficient to meet all cash outflows, in both ordinary and stressed conditions, and b) in compliance with regulatory requirements.

These regulatory requirements include the Liquidity Coverage Ratio ("LCR") and Net Cumulative Cash Flow ("NCCF") metrics prescribed by OSFI. The LCR reports net cumulative cash flow requirements in a stressed environment over a short-term period of 30 days. The NCCF measures detailed cash flows to capture the risk posed by funding mismatches over and up to a 12-month time horizon.

Liquidity risk is managed through both daily monitoring and measurement of the Bank's liquidity position, and regular liquidity forecasting. Monitoring includes liquidity metrics such as maturity gap analysis and survival horizons. Even with the Bank's underlying policies and monitoring there is a risk of disruption in the funding markets beyond the Bank's control. In cases where the disruption is severe or prolonged the Bank may need to take further contingency actions, which could include curtailing lending activity.

The Bank's main sources of cash and operating liquidity are deposits, cash premiums received from the sale of mortgages to investors, net interest income, cash received from the Bank's share of servicing fees and excess spread, and, to a lesser extent, securitizations. As described above, the Bank underwrites for sale only high-quality mortgages and maintains stringent underwriting and quality assurance processes, in order to maximize investor demand and therefore liquidity. Generally, liquidity risk associated with prime insurable and prime uninsurable mortgage commitments is limited, as most investors commit to funding at the time of mortgage commitment. As noted above, in Q2 2018 the Bank began originating and selling prime uninsurable mortgages. As the Bank expands its originations of such loans for sale to institutional investors, the Bank will bear the liquidity risk for any loans it may have to reacquire from investors if such loans are deemed by the investor to be ineligible. This could have a material impact on the Bank's liquidity reserves if it were required to either fund at closing, or subsequently repurchase, a large amount of loans at once without the ability to replenish its pool of liquid assets. The Bank considers this repurchase risk in setting its ongoing liquidity requirements. Such funding or repurchases due to ineligibility of loans could also compromise the ongoing funding from investors supporting the prime uninsurable lending program and force the Bank to curtail the product offering.

With respect to the Bank's on-balance sheet mortgages, in particular Street Solutions uninsured loans, this lending activity is funded by the Bank's deposit taking activity. The Bank's funding strategy, where possible, is to be long on deposits relative to the expected duration of its on-balance sheet mortgage lending. Any maturity gaps are managed within risk limits.

Shown below is a maturity gap table comparing the Bank's on-balance sheet mortgages to its GIC deposits.

(in thousands of $)					**As at September 30, 2019**
	0 - 3 Months	**3 - 12 Months**	**1 to 3 Years**	**Over 3 Years**	**Total**
Remaining contractual term					
Single-family residential mortgages	**$ 166,010**	**$ 369,055**	**$ 29,901**	**$ 16,578**	**$ 581,544**
Deposits (GICs)	**69,608**	**198,165**	**275,345**	**95,357**	**638,475**
Net maturity	**$ 96,402**	**$ 170,890**	**$ (245,444)**	**$ (78,779)**	**$ (56,931)**

The Bank's access to deposits depends upon a number of factors including access to third-party deposit platforms, interest rates offered by competing lenders, general economic conditions, regulatory requirements, and the securities markets in general. The Bank's deposits are currently sourced through the deposit broker network, and are CDIC-insurance-eligible fixed-term GICs. This network is expected to expand and to have more than sufficient liquidity to meet the Bank's funding needs for the next few years. The Bank is, however, exposed from time to time to deposit dealer-imposed concentration limit restrictions.

The Bank holds liquid assets primarily in the form of cash in bank deposits, NHA MBS, and Canada Mortgage Bonds, shown in the table below. The stamped mortgages are mortgages that have been securitized through the NHA MBS program and not yet sold to investors. They can be readily converted to cash.

		As at
(in thousands of $)	**September 30, 2019**	**December 31, 2018**
Deposits with regulated financial institutions	**$ 45,213**	$ 64,495
Securities	**23,191**	22,692
Stamped mortgages	**11,749**	24,778
Total liquid assets	**$ 80,153**	$ 111,965

As an approved NHA MBS issuer, the Bank can access the NHA MBS market to fund insured mortgages. The Bank's access to liquidity through investors and the NHA MBS securitization market depends on a number of factors, including general economic conditions, spreads on mortgages relative to other investments, and conditions in both the securities markets in general and the MBS market specifically. Accordingly, a decline in investor demand or securitization markets could adversely affect the Bank's ability to originate mortgages, which could negatively impact future financial results.

INTEREST RATE RISK

Interest rate risk is the risk of lost earnings or capital due to changes in interest rates. The objective of interest rate risk management is to ensure that the Bank is able to realize stable and predictable earnings, over specific time periods, despite fluctuations in interest rates. The Bank has a Board-approved market risk management framework that defines strategies and policies that are aligned with the Bank's risk appetite. In addition, the framework specifies stress-testing and sensitivity analysis with regard to interest rates and related factors, along with appropriate use of hedging as a risk management technique. The policies are reviewed at least annually and more often if required by events or changing circumstances.

The Bank's primary exposure to interest rate risk arises from the possibility that a significant portion of its assets and liabilities could have unmatched terms and/or interest rates.

Generally, the Bank is not exposed to material levels of interest rate risk arising from prime insurable or prime uninsurable mortgage commitments, because the purchase price for mortgages sold to investors is normally based on customer commitment rates rather than the interest rate at time of funding, thereby passing on the interest rate risk to the investors. Interest rate risk may arise if committed and allocated loans no longer qualify at funding based on individual investor criteria, and are then either funded by the Bank directly or sold to another investor who has different funding criteria. In a rate-rising environment, interest rate risk increases. When the Bank securitizes prime insured mortgages directly, or sells loans on a whole loan basis after funding, it is exposed to interest rate risk arising from both the point the mortgage commitments are issued, and from the time of loan funding to the point of pooling the loan for securitization or loan sale. The level of risk has historically been low overall given low relative volumes of both securitizations and whole loan sales after funding and as such the Bank historically has not hedged this risk.

The Bank is also exposed to interest rate risk from its mortgage commitments issued with respect to Street Solutions mortgages designated for sale to a third-party investor, as these loans are funded by the Bank prior to their subsequent sale to the investor. Any increase in interest rates between the time of commitment and time of funding could decrease the Bank's expected level of profitability from the loan sale. To date this activity has been minimal and the Bank has not been exposed to material levels of interest rate risk.

The table below details the results, for the Bank, of sensitivity modelling interest rate increases and decreases during the 12-month period beginning on September 30, 2019. The model is based on a number of assumptions, and actual results could vary from these assumptions should an actual rate change occur.

	As at September 30, 2019	
(in thousands of $, except %)	**Increase in interest rates**	**Decrease in interest rates**
100 basis point shift		
Impact on net interest income	**$ 2,357**	**$ (2,423)**
Impact on EVE	**5,125**	**(5,392)**
EVE as a % of shareholders' equity	**4.45%**	**(4.68%)**
200 basis point shift		
Impact on net interest income	**$ 4,712**	**$ (4,851)**
Impact on EVE	**10,052**	**(11,005)**
EVE as a % of shareholders' equity	**8.73%**	**(9.56%)**

Shown below is the September 30, 2019 position of the Bank, with regard to the interest rate sensitivity of its assets, liabilities and equity. The information presented is based on the contractual maturity date.

(in thousands of $)	Floating Rate	0 to 3 Months	4 Months to 1 Year	1 Year to 5 Years	Non Rate Sensitive	Total [1]
						September 30, 2019
Assets						
Cash and restricted cash	$ -	$ 50,535	$ -	$ -	$ -	$ 50,535
Weighted Average Contractual Rate	-	1.75%	-	-	-	1.75%
Marketable securities	-	-	-	23,191	-	23,191
Weighted Average Contractual Rate	-	-	-	2.48%	-	2.48%
Non-securitized mortgages - Street Solutions	-	165,071	368,016	19,348	(1,264)	551,171
Weighted Average Contractual Rate	-	4.78%	5.36%	5.78%	-	5.21%
Non-securitized mortgages - stamped mortgages	6,102	-	145	5,502	-	11,749
Weighted Average Contractual Rate	3.05%	-	2.79%	2.71%	-	2.89%
Non-securitized mortgages - other	3,078	940	894	12,448	(10)	17,350
Weighted Average Contractual Rate	3.30%	3.88%	3.39%	3.31%	-	3.35%
Bridge loans	1,721	-	-	-	-	1,721
Weighted Average Contractual Rate	8.95%	-	-	-	-	8.95%
Securitized mortgages held on-balance sheet	48,559	-	19,679	23,525	474	92,237
Weighted Average Contractual Rate	3.48%	-	2.69%	2.56%	-	3.06%
Other assets	-	1,200	-	-	178,714	179,914
Weighted Average Contractual Rate	-	1.00%	-	-	-	0.01%
Total assets	$ 59,460	$ 217,746	$ 388,734	$ 84,014	$ 177,914	$ 927,868
Weighted Average Contractual Rate	3.58%	4.05%	5.22%	3.40%	-	3.67%
Liabilities						
Cashable GICs [2]	$ -	$ 462	$ -	$ -	$ (0)	$ 462
Weighted Average Contractual Rate	-	1.47%	-	-	-	1.47%
Non-cashable GICs	-	69,145	198,768	370,100	(2,279)	635,734
Weighted Average Contractual Rate	-	2.43%	2.50%	2.87%	-	2.72%
Securitization liabilities	50,203	107	19,679	23,524	(183)	93,330
Weighted Average Contractual Rate	2.36%	1.80%	1.65%	1.38%	-	1.97%
Other liabilities	-	-	-	-	93,484	93,484
Weighted Average Contractual Rate	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	104,858	104,858
Weighted Average Contractual Rate	-	-	-	-	-	-
Total liabilities and shareholders' equity	$ 50,203	$ 69,714	$ 218,447	$ 393,624	$ 195,880	$ 927,868
Weighted Average Contractual Rate	2.36%	2.42%	2.43%	2.78%	-	2.06%
Excess (deficiency) of assets over liabilities and shareholders' equity	$ 9,257	$ 148,032	$ 170,287	$ (309,610)	$ (17,966)	$ (0)

[1] Accrued interest is included in "Other assets" and "Other liabilities", respectively.

[2] Cashable GICs are redeemable by the depositor after 90 days from the issue date.

INVESTMENT RISK

Investment risk is the risk of loss due to impairment in the fair value of investments. The Bank has adopted a Board-approved investment policy that specifies the sources of cash to be invested and the constraints within which investments can be made. The policy is designed to help mitigate credit, liquidity and market risk. It is reviewed at least annually, and more often if required by events or changing circumstances.

At September 30, 2019 the Bank's investment risk is largely limited to its investment in CMBs having a par value of $22.5 million, which had a fair value of $23.2 million at September 30, 2019. More complex investing activities are expected to occur as deposit taking and uninsured lending operations expand, although the timing of such activities is uncertain. The CMBs are also readily converted to cash and the Bank considers them to be part of its liquid assets.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of loss resulting from either inadequate or failed internal processes, people and systems, or from external events. Operational risk cannot be completely eliminated, since it is inherent in all business activities, and it can occur in such diverse areas as fraud, equipment damage, system failure, cyber security, business disruption, human error, and natural disasters. While aware of these constraints, the Bank takes proactive steps to mitigate its operational risk. It has adopted an ERM Framework that includes strategies to manage operational risk, including avoidance, transfer, insurance, acceptance, and mitigation by controls. The Bank also employs a risk and compliance information system that facilitates the application of enhanced operational risk management techniques.

As part of normal operations as a mortgage lender, the Bank is exposed to an inherently high level of fraud risk through the mortgage origination and underwriting processes. The Bank has quality control and fraud management practices in place to mitigate these risks, which practices and processes are evaluated and modified on an ongoing basis.

The Bank's mortgage sale agreements generally require it to repurchase or substitute mortgages in the event there has been a breach of a representation or warranty made to the mortgage purchaser (generally including situations involving identification of mortgage fraud), and/or to indemnify the mortgage purchaser against any loss it may suffer. Significant breaches of mortgage sale agreements could have a negative impact on the Bank's ability to sell mortgages.

As well, the Bank's mortgage lending operations are dependent on a network of mortgage brokers, some of whom may represent a material volume of the Bank's aggregate mortgage originations. If the Bank chooses to cease doing business with any particular broker or brokers as a result of identifying mortgage fraud or any other misrepresentation on the part of the broker, this could have a material adverse effect on its financial results.

REPUTATIONAL RISK

Reputational risk is the risk that shareholders, the general public, third parties with whom the Bank deals, employees, or regulators, will, with or without basis, judge the Bank's operations, actions or business practices unfavorably, potentially resulting in a decline in its value, brand, liquidity, or customer base. Reputational risk is pervasive through all of the Bank's activities.

To manage its reputational risk, the Bank has developed a Reputational Risk framework, which includes a Reputation Risk Management Policy that sets out the principles and organization structures and process related to managing reputational risk.