BASEL III PILLAR 3 DISCLOSURES

SEPTEMBER 30, 2020

TABLE OF CONTENTS **PAGE**

RFA BANK OF CANADA
BASEL III PILLAR 3 DISCLOSURES
SEPTEMBER 30, 2020

NATURE OF OPERATIONS

RFA Bank of Canada ("RFA Bank" or the "Bank") is a Canadian federally regulated Schedule I bank. It was founded as Street Capital Financial Corporation in the province of Ontario in 2007 and began operations as Street Capital Bank in February 2017. Following the October 2019 acquisition of the Bank's parent company, as described below, the Bank underwent a further name change. Effective January 1, 2020 it now operates as RFA Bank of Canada. The Bank takes deposits in the form of guaranteed investment certificates ("GICs"), and its business activities are concentrated in residential mortgage lending. The address of its registered office is 1 Yonge Street, Suite 2401, Toronto, Ontario, M5E 1E5.

On October 18, 2019, in a transaction that was announced on June 17, 2019 and approved by shareholders on August 16, 2019, all of the issued and outstanding common shares of Street Capital Group Inc. ("SCGI"), the Bank's parent company, were acquired by RFA Capital Holdings Inc. ("RFA"), a non-publicly traded entity, for $0.68 per share in cash. The transaction (the "RFA Transaction") is described in SCGI's *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, 2019 SCGI 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, the Bank operates as a wholly owned subsidiary of a private company.

As part of the RFA Transaction, RFA committed to increase the equity capital of the Bank by a minimum of $50 million. This was achieved through a combination of a series of transactions that involved the sale of Bank assets to unrelated third parties, and a capital injection by the Bank's ultimate parent, RFA. The asset sales resulted in the Bank transferring renewal rights to a significant portion of its mortgages under administration in return for a one-time cash payment. The Bank simultaneously sold its deferred placement fees receivable and wrote off its prepaid portfolio insurance. As a result of the asset sales, the Bank recognized a one-time net gain of $27.8 million in the fourth quarter of 2019.

BASIS OF PREPARATION

These Basel III Pillar 3 Disclosures (the "Disclosures"), which are unaudited, are made pursuant to the Office of the Superintendent of Financial Institutions ("OSFI") requirements and are based on the global standards that have been established by the Basel Committee on Banking Supervision ("BCBS"). 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 the Capital and Leverage Ratio tables which were posted on the Bank's website, were included in the public filings of SCGI, 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.

COVID-19 PANDEMIC

In December 2019, the World Health Organization ("WHO") was alerted to several cases of pneumonia in Wuhan, China, which were associated with an unknown virus. This was soon identified as a new form of coronavirus that became known as COVID-19, for which there was no vaccine or targeted treatment. As the number of known cases continued to increase, in late January the WHO declared the outbreak a public health event of international concern. The first COVID-19 case in Canada was confirmed in late January. As cases continued to increase globally, the WHO declared the outbreak a pandemic. By mid-March, a global effort was underway to slow the spread of COVID-19 through curtailing large public and private gatherings, encouraging employees to work from home, closing businesses deemed non-essential, and encouraging individuals to stay home and self-isolate.

These efforts have helped slow the spread of COVID-19 cases in Canada which has allowed the Government to gradually reopen businesses, services and public spaces using a regional and staged approach. Although Canada has made significant progress in the fight against COVID-19, cases in Canada and globally have been on the rise and evidence of a second wave was present as of the date of this report. Uncertainty remains as to the duration and severity of the second wave and to what extent the ultimate human and economic toll will be.

Impact on Operations

The societal and economic disruption resulting from COVID-19 are largely unprecedented and virtually every industry and business has been impacted. The Bank's operational risk management function included preparation for a major business disruption, and on March 16 the Bank invoked its Work from Home Protocol. The daily operations of the Bank have therefore continued with little disruption.

Payment Deferral Program

On March 14, the Canada Mortgage and Housing Corporation ("CMHC") announced they would be working with lenders to allow payment deferrals of up to 6 months to assist homeowners facing financial stress due to COVID-19. On March 18, RFA Bank began allowing mortgage payment deferrals to its customers. The Bank's mortgage deferral program gave all homeowners the flexibility to defer up to 1-month of mortgage payments, and up to 3 months on a case-by-case basis. Customer requests to defer payments beyond 3 months were based on individual circumstances.

On September 30, the payment deferral program that was offered to Canadians in response to COVID-19 ended. Notwithstanding the forgoing, the Bank introduced an online application process for customers still experiencing financial hardship due to COVID-19 and who were as a result, seeking further payment assistance.

Canada Emergency Wage Subsidy ("CEWS")

In response to the unprecedented impact of COVID-19 on Canadian business and as part of Canada's COVID-19 Economic Response Plan, the Federal government announced the Canada Emergency Wage Subsidy ("CEWS") on March 27. The CEWS protects jobs by helping businesses keep employees on the payroll and encouraging employers to re-hire workers previously laid off. Under this program, eligible employers received up to 75% of employee wages up to a maximum of $847 per week per person. To qualify, businesses had to demonstrate that monthly sales fell by at least 15% in March 2020 and 30% in April, May, June, and July, respectively, compared against a reference period. The reference period being either the average of January and February sales or the same period last year.

On July 17, the Federal government announced proposed changes to the CEWS, including the extension of the program until December 19, 2020. The Government also redesigned program details that are in effect until November 21, including the elimination of the 30% revenue decline test. As a result of these changes, the program became accessible to a broader range of employers by having the extent of revenue decline determine the amount of the subsidy. The former cap of 75% of $1,129 per week per eligible employee was replaced with a base and top-up percentage. Under the new calculation, the maximum combined rate was 85% in July and August, 75% in September, 65% in October and 45% in November. On September 25, the Government proposed to extend the 75% maximum to October and review future periods in light of ongoing progress in the fight against COVID-19. Details for December had not been released as of the end of the current quarter.

In the Speech from the Thorn on September 23, the Liberal Party announced their intention to extend the federal wage subsidy into next summer. These plans were subsequently confirmed on September 25 as part of a news release by the Department of Finance. Additional details surrounding the proposed extension had not been published as of the date of this report.

Impact on Business

The Bank remains vulnerable to the potential economic impact of COVID-19 and in particular, the risk that a significant number of mortgagees could become delinquent and/or default subsequent to the removal of the payment deferral program and various government assisstance programs. Such an event could have a signficiant impact on the Bank's allowance and provision for credit losses and negatively affect cash flows. As at September 30, the Bank's unrestricted cash position remained strong with a cash and cash equivalents balance of $113 million.

The curtailment of many business activities, including real estate purchases and sales, could also negatively affect the Bank's plans to grow its balance sheet via the origination or purchase of mortgages. COVID-19 did not become a significant disruptor until the last half of March, and as at September 30, 2020 the Bank had experienced a decline in planned mortgage originations. In response to lower origination volumes and to partially mitigate the negative impact on net interst margin, the Bank increased third party purchases of mortgages and have reduced GIC originations relative to plan.

As a result of the negative impacts COVID-19 has had on the Bank's business and operations, a restructuring charge of $0.5 million was taken in Q2 2020. The Bank will continue to monitor the situation and will adjust its forecasts and planned business activities in response to events and as new information becomes available. More discussion of the impact of COVID-19 on the Bank is included in the following sections of this report.

RISK GOVERNANCE

The Board of Directors is responsible for establishing the overall strategy and objectives of the Bank and the Bank's overall risk appetite, through determining 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 the Bank's operations. ERM requires the involvement of the Board of Directors, the Enterprise Risk Management Committee ("ERMC") of the Board, senior management, and other employees to continually identify, measure, assess, manage and monitor 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:

- First Line of Defense: Employees within each business area identify, accept and manage risk on a day-to-day basis, adhering to the established risk appetite and supporting policies, guidelines and procedures of the Bank. These groups are also referred to as operational management.

- Second Line of Defense: The Risk Management, Compliance, and Finance functions, represented by the Chief Risk Officer and Chief Privacy Officer, Chief Compliance Officer , Chief Anti-Money Laundering Officer, Chief Financial Officer, and General Counsel and Corporate Secretary, respectively, establish policy and provide direction, guidance, methodology, tools and independent monitoring and analysis of First Line of Defence risk taking and risk management activities. These groups are also referred to as oversight functions and are responsible for providing enterprise-wide oversight of operational management.

- Third Line of Defense: The Internal Audit function, represented by the Chief Internal Auditor, provides independent assurance on the adequacy and effectiveness of the Enterprise Risk Management Framework (“ERM Framework”) and the supporting practices and compliance of the First and Second lines of Defence.

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.

The Bank is exposed to various types of risk owing to the nature of its business activities, and, like other financial institutions, is exposed to the symptoms and effects of domestic and global economic conditions and other factors that could adversely affect its business, financial condition, and operating results. As of September 30, 2020, the largest potential disruptor to the Bank is the national and global effects of COVID-19. The significance of this risk became apparent in the latter part of Q1 2020, as noted above under *COVID-19 Pandemic*.

In addition to the specific risks associated with COVID-19, the Bank’s ongoing risks include strategic, credit, liquidity, interest rate, investment, capital adequacy, operational, reputational, and compliance risk, and many of these cannot be directly controlled by the Bank. The Bank’s investment in, and commitment to, risk management is a key component of its long-term success. Specific risk areas are discussed in more detail below.

CAPITAL MANAGEMENT

As a regulated financial institution that is subject to the capital requirements of its regulator, OSFI, the Bank must continually monitor and assess its capital adequacy under both expected and stressed conditions. 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. Capital adequacy can be affected by changes in the Bank’s financial performance, its business plans, or regulatory requirements. The economic impact of COVID-19 has the potential to negatively affect the Bank’s capital reserve, although as of September 30, 2020 this had not yet occurred. OSFI’s guidelines on adjusted capital treatment related to COVID-19 are discussed later in this section.

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. Management defines capital as the Bank’s equity and retained earnings. The CMP is reviewed at least annually and more often if required by events or changing circumstances.

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 as a going concern, including during periods of severe but plausible stress, such as COVID-19. 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 ERM Committee of the Board, 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 stress
- 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

Following its October 18, 2019 acquisition of SCGI, RFA increased the Bank’s capital 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 that the Investors will 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 of up to $5 billion of additional mortgage funding. To date, there have been no capital injections following the initial $50 million referred to above.

The Bank calculates its 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”).

In March 2020, as part of its response to COVID-19, OSFI introduced transitional arrangements for expected credit loss provisioning, which resulted in a portion of allowances that would otherwise be included in Tier 2 capital to instead be included in Common Equity Tier 1 (CET1) capital. The resulting increase to capital is adjusted for tax effects and is subject to a scaling factor that will decrease over time, from 70% in fiscal 2020 to 25% in fiscal 2022. For the Bank, this arrangement resulted in a $135 thousand increase to its CET1 capital as of September 30, 2020.

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 a 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 2, and Total Capital Ratios. The Bank was fully compliant with its target regulatory capital and leverage ratio requirements as of September 30, 2020.

The Bank's capital structure is shown below as of September 30, 2020, the Bank had 39,514,043 shares outstanding.

Basel III Regulatory Capital

	September 30, 2020	December 31, 2019
	All-In Basis	**All-In Basis**
(in thousands of $)		
Common Equity Tier 1 capital (CET 1)		
Capital stock	**$ 42,127**	$ 42,127
Contributed surplus	**3,226**	3,226
Retained earnings	**111,589**	110,723
Accumulated other comprehensive income	**1,194**	475
Eligible Stage 1 and Stage 2 allowances	**135**	-
Less: Regulatory adjustments to CET 1 (**Note 1**)	**(713)**	(1,398)
Total CET 1 capital	**$ 157,558**	$ 155,153
Additional Tier 1 capital	**-**	-
Total Tier 1 capital	**$ 157,558**	$ 155,153
Total Tier 2 capital (eligible Stage 1 and Stage 2 allowances)	**906**	779
Total regulatory capital	**$ 158,464**	$ 155,932

Note 1: Regulatory adjustments include intangible assets, net of deferred taxes, and securitization-related gains on sale.

The Bank's risk-weighted assets are determined by applying the OSFI-prescribed rules to on-balance sheet and off-balance sheet exposures. They include all on-balance sheet assets weighted for the risk inherent in each asset type, an operational risk component based on a percentage of risk-weighted average revenues, and a component based on commitments for on-balance sheet lending. The Bank follows the Basel II Standardized Approach to calculate credit risk, and the Basic Indicator Approach for operational risk.

In March 2020, as part of its response to COVID-19, OSFI issued a guideline for the risk weighting of mortgage loans for which payment deferrals had been granted. Under the Basel II Standardized Approach, which is applicable to the Bank, these loans will not be subject to a different risk weight. This temporary capital treatment will remain in place for the duration of the payment deferral, up to a maximum of 6 months. OSFI will revisit this treatment in the future, as needed.

The Bank's risk-weighted assets are shown below.

Risk-Weighted Assets

	September 30, 2020			December 31, 2019		
	Balance Sheet	Effective Risk Weight	Risk-Weighted Amount	Balance Sheet	Effective Risk Weight	Risk-Weighted Amount
			All-In Basis			All-In Basis
(in thousands of $)						
Cash and cash equivalents	$141,203	20.00%	$ 28,241	$138,677	20.00%	$ 27,735
Securities	23,932	0.00%	-	22,313	0.00%	-
Insured residential mortgages	126,024	2.20%	2,770	182,157	2.00%	3,641
Uninsured residential mortgages	538,123	35.50%	191,028	508,891	35.53%	180,801
Construction mortgages	51,150	100.00%	51,150	23,516	100.00%	23,516
Other assets	73,364	98.45%	72,225	60,543	93.21%	56,429
Total assets subject to risk rating	$953,796	36.21%	$ 345,414	$936,097	31.21%	$ 292,122
Intangible assets	434	-	-	1,090	-	-
Allowance for credit losses	(1,273)	18.25%	(232)	(947)	17.73%	(168)
Total assets	$952,957		$ 345,182	$936,240		$ 291,954
Off-balance sheet exposure (loan commitments)			22,011			297
Total assets and off-balance sheet exposure	$952,957		$ 367,193	$936,240		$ 292,251
Operational risk (average three-year annual gross income)			92,908			112,243
Total risk-weighted assets	$952,957		$ 460,101	$936,240		$ 404,494

The Bank's capital ratios and leverage ratio are shown below. During all periods presented, all capital ratios were above OSFI's stated minimum ratios. The Bank's leverage ratio was also above the minimum ratio that was assigned to the Bank by OSFI.

Capital and Leverage Ratios

	September 30, 2020	December 31, 2019
	All-In Basis	All-In Basis
Regulated capital to risk-weighted assets		
CET 1 ratio	34.24%	38.36%
Tier 1 capital ratio	34.24%	38.36%
Total regulatory capital ratio	34.44%	38.55%
Leverage ratio	16.17%	16.59%
National regulatory minimum		
CET 1 ratio	7.00%	7.00%
Tier 1 capital ratio	8.50%	8.50%
Total regulatory capital ratio	10.50%	10.50%
Leverage ratio	3.00%	3.00%

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 and underlying risk of default on the part of the borrower. The Bank's exposure to credit risk varies across its suite of portfolios.

Liquidity portfolio

The Bank purchases highly liquid investments in the form of Government of Canada Treasury Bills and bankers' acceptances and uses them to meet its funding and liquidity requirements, particularly its mortgage lending operations. The Bank's credit risk on liquid assets, the majority of which are cash and cash equivalents, is minimal. All counterparties with respect to cash and cash equivalents are Schedule I Canadian banks with high credit ratings assigned by international rating agencies.

Sale of mortgages

Historically, the Bank's revenue was earned from the placement, servicing, and securitization of prime insurable mortgages. Most of the mortgages underwritten by the Bank were sold to institutional investors and were insured or insurable against default by CMHC and other government backed private insurers. This made the associated residual credit risk to the Bank minimal.

Beginning in Q2 2018 the Bank also originated prime uninsurable mortgages intended for sale to investors. Prime uninsurable mortgages are mortgages that approximate the credit quality of prime insurable mortgages and are compliant with OSFI's *Guideline B-20 Residential Mortgage Underwriting Practices and Procedures* ("Guideline B-20"), but do not qualify for mortgage insurance due to one or more criteria. The Bank bears the credit risk for any loans it may have to reacquire from investors if such loans are later determined to be ineligible. As of the end of the current quarter, no loans had been returned to the Bank in 2020.

Since the RFA acquisition in Q4 2019, the Bank has largely ceased selling prime insurable and uninsurable mortgages to investors. As such, the Bank's sale activity has been primarily limited to the securitization of 10-year insured multi-unit residential mortgages in the National Housing Act Mortgage-Backed Securities ("NHA MBS") program and sale of NHA MBS pools into the Canada Mortgage Bond ("CMB") programThe 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 ownership. 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 is obligated to make a timely payment guarantee for amounts owing to CMB investors in the event a loan becomes delinquent. However, as the loans under this program are insured, any funding by the Bank would be recoverable through an insurance claim leaving the residual credit risk to the Bank very low.

On-balance sheet lending

In Q2 2017, the Bank diversified its business activities to include uninsured mortgages. This occurred with the launch of the Bank's Alt-A Solutions lending program, which has since been renamed RFA Alternative. The program consists of non-prime uninsured mortgages that have typically been funded with CDIC insured deposits. The Bank mitigates its risk by targeting the market segment that consists of credit-worthy borrowers who may not qualify for a prime residential mortgage under current regulations, and by limiting its loan-to-value ("LTV") ratio to less than 80% and restricting lending to urban locations. To date the Bank has not incurred any losses on the RFA Alternative portfolio.

In the fourth quarter of 2019, the Bank expanded its uninsured lending to include participation in syndicated construction loans. As of September 30, 2020, the portfolio consisted of 1 construction loan, 2 land loans and 5 inventory loans. The Bank mitigates credit risk by performing extensive due diligence procedures and by limiting the exposure to each counterparty and project, and by ensuring that all loans have a well-defined exit strategy.

Purchases

In Q4 2019, the Bank began purchasing funded non-prime uninsured mortgages from a third party. The credit quality of these mortgages is consistent with the Bank's RFA Alternative loans that it originates. The Bank mitigates its credit risk by reviewing the original underwriting documents to ensure that the credit quality is aligned with the Bank's risk appetite. Additionally, the purchase agreement allows the Bank to put back within a specified time frame, mortgages that do not conform with the Bank's credit standards. To date the Bank has not incurred any losses on these purchases.

The Bank further broadened its on-balance sheet mortgage portfolio in Q4 2019, when it began purchasing prime insured mortgages that are held for sale. The mortgages were acquired from the Bank's on-balance sheet NHA MBS pool upon renewal resulting in the partial derecognition of the Bank's securitized asset. The Bank considers the credit risk on these mortgages to be minimal.

Similarly, in Q1 2020 the Bank began purchasing funded prime open insured mortgages. Although insured mortgages are associated with a lower inherent credit risk, the Bank also mitigates its credit risk on these mortgages in a similar manner as described above for the non-prime uninsured mortgages.

Managing and monitoring credit risk

The Bank manages credit risk through its ERM Committee and Credit Risk Committee ("CRC"). The ERM Committee meets quarterly while the CRC meets monthly to review risk factors in the Bank's lending portfolios. Adjustments to the Bank's credit risk limits and lending policies are made during these meetings.

The Bank mitigates its credit risk on the mortgages that it underwrites by applying a detailed set of Board-approved credit policies and underwriting procedures, which are compliant with OSFI's B-20 Guideline. These policies take into consideration such key factors as asset quality, loan-to-value ratio, debt service ratio, property location, and economic factors. This includes application of 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 to provide continuous feedback and monitoring of mortgage credit quality.

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 reviews the credit performance and credit quality of its mortgage portfolios on an ongoing basis and performs stress testing that includes scenarios 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.

Credit risk exposure and concentration

The maximum credit exposures of the Bank's financial assets are their carrying values as reflected on the statements of financial position plus undrawn commitments primarily related to construction loans. The Bank had $47 million of undrawn construction commitments at the end of the current quarter for which $98 thousand was set aside as a provision for credit losses.

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 British Columbia (21%) and Ontario (44%) with the 8 largest borrowers representing 55% of the outstanding balance as of the end of the current quarter. The construction loans outstanding as of September 30, 2020 are for properties in Alberta (30%), British Columbia (49%) and Ontario (21%). Aside from this, the Bank does not have any significant concentrations of credit risk within any geographic region or group of customers. The Bank does not do business in Quebec however a small portion of its purchased insured mortgages are located in that province.

The table below summarizes the Bank's outstanding mortgage balance net of deferred unamortized cost and net of allowance for credit losses, as of September 30, 2020.

(in thousands of $)	Total Single Family Uninsured	Total Single Family Insured	Construction Loans	Stamped Multi Residential Loans	Bridge Loans	All Balance Sheet Loans
January 1, 2020	**$ 508,891**	**$ 172,769**	**$ 23,516**	**$ 8,976**	**$ 209**	**714,361**
Originations	**39,294**	**-**				**39,294**
Purchases / Buybacks	**202,427**	**268,781**	**65,659**		**2,493**	**539,360**
Sales / Derecognition	**(5,999)**	**(148,750)**	**(25,000)**	**(8,976)**		**(188,725)**
Net repayments and other [1]	**(206,491)**	**(166,776)**	**(13,025)**		**(2,702)**	**(388,994)**
September 30, 2020	**$ 538,122**	**$ 126,024**	**$ 51,150**	**$ -**	**$ -**	**$ 715,296**
Allowance for credit losses	**(1,147)**		**(126)**			**(1,273)**
Net at September 30, 2020	**$ 536,975**	**$ 126,024**	**$ 51,024**	**$ -**	**$ -**	**$ 714,023**
Credit loss %	**(0.21%)**	**0.00%**	**(0.25%)**	**0.00%**	**0.00%**	**(0.18%)**

[1] Net repayments and other cateogry consists of all regular and partial loan payments, full payouts, as well as movements in the balances of unamortized origination costs, administrative fees, premium / discount balances and fair value adjustments on loans held for sale.

The table below shows the geographic distribution of the mortgages that the Bank holds on-balance sheet.

September 30, 2020

(in thousands of $)	Alberta	British Columbia	Ontario	All Other Provinces	Total
Held for sale	$ 6,128	$ 2,810	$ 17,691	$ 872	$ 27,501
Held to collect					
Single-family insured	$ 15,864	$ 8,697	$ 64,893	$ 9,069	$ 98,523
Single-family uninsured	26,132	90,819	414,301	6,870	538,122
Construction loans	15,468	24,764	10,918	-	51,150
Bridge loans	-	-	-	-	-
Total held to collect	$ 57,464	$ 124,280	$ 490,112	$ 15,939	$ 687,795
As a % of portfolio	8.35%	18.07%	71.26%	2.32%	100.00%
All gross loans	$ 63,592	$ 127,090	$ 507,803	$ 16,811	$ 715,296
As a % of portfolio	8.89%	17.77%	70.99%	2.35%	100.00%

December 31, 2019

	Alberta	British Columbia	Ontario	All Other Provinces	Total
Held for sale	$ 16,609	$ 10,915	$ 36,959	$ 8,514	$ 72,997
Held to collect					
Single-family insured	$ 13,324	$ 7,792	$ 82,962	$ 4,670	$ 108,748
Single-family uninsured	15,781	93,432	394,645	5,033	508,891
Construction loans	-	23,516	-	-	23,516
Bridge loans	-	-	209	-	209
Total held to collect	$ 29,105	$ 124,740	$ 477,816	$ 9,703	$ 641,364
As a % of portfolio	4.54%	19.45%	74.50%	1.51%	100.00%
All gross loans	$ 45,714	$ 135,655	$ 514,775	$ 18,217	$ 714,361
As a % of portfolio	6.40%	18.99%	72.06%	2.55%	100.00%

The table below shows the loan-to-value ratios of the single-family residential mortgage loans that the Bank holds on-balance sheet.

September 30, 2020

	Alberta	British Columbia	Ontario	All Other Provinces	Total
Held for sale	87.24%	89.05%	85.55%	84.27%	86.24%
Held to collect					
Single-family insured	90.45%	82.35%	83.31%	89.56%	84.95%
Single-family uninsured	74.05%	70.64%	71.32%	73.24%	71.36%
Total held to collect	80.25%	71.66%	72.94%	82.52%	73.47%
All gross loans	80.92%	72.05%	73.38%	82.62%	73.96%

December 31, 2019

	Alberta	British Columbia	Ontario	All Other Provinces	Total
Held for sale	77.92%	74.93%	77.41%	83.94%	77.89%
Held to collect					
Single-family insured	88.77%	85.73%	84.79%	91.57%	85.64%
Single-family uninsured	74.30%	69.78%	71.40%	69.67%	71.17%
Total held to collect	80.93%	71.00%	73.72%	80.21%	73.72%
All gross loans	80.20%	71.36%	73.99%	81.88%	74.11%

The table below shows the remaining term to maturity of the principal balances of the Bank's outstanding loans.

(in thousands of $)					September 30, 2020
	Within 1 year	**1 - 3 years**	**3 - 5 years**	**5 - 10 years**	**Total**
Alt-A Solutions mortgages	**$ 295,503**	**$ 31,743**	**$ 1,949**	**$ -**	**$ 329,195**
Prime uninsured mortgages	**952**	**2,808**	**2,276**	**-**	**6,036**
Alt-A Eclipse mortgages	**123,463**	**79,872**	**-**	**-**	**203,335**
Non-securitized insured prime mortgages	**968**	**4,852**	**28,709**	**-**	**34,529**
Purchased insured mortgages	**36,900**	**-**	**213**	**-**	**37,113**
Stamped insured mortgages	**-**	**10,804**	**-**	**-**	**10,804**
Securitized mortgages loans	**41,074**	**1,937**	**-**	**-**	**43,011**
Constructon loans	**34,343**	**17,119**	**-**	**-**	**51,462**
Bridge loans	**-**	**-**	**-**	**-**	**-**
Total mortgages and loans	**$ 533,203**	**$ 149,135**	**$ 33,147**	**$ -**	**$ 715,485**

					December 31, 2019
	Within 1 year	**1 - 3 years**	**3 - 5 years**	**5 - 10 years**	**Total**
Alt-A Solutions mortgages	$ 454,257	$ 18,133	$ 770	$ -	$ 473,160
Prime uninsured mortgages	-	3,389	4,173	-	7,562
Alt-A Eclipse mortgages	17,315	11,219	-	-	28,534
Non-securitized insured prime mortgages	10,781	13,385	49,989	-	74,155
Stamped insured mortgages	144	4,874	6,186	-	11,204
Securitized mortgages loans	56,150	30,327	-	-	86,477
Constructon loans	23,516	-	-	-	23,516
Stamped multi-residential mortgages	-	-	-	9,199	9,199
Bridge loans	209	-	-	-	209
Total mortgages and loans	$ 562,372	$ 81,327	$ 61,118	$ 9,199	$ 714,016

Expected credit losses

The Bank complies with the impairment requirements of *IFRS 9: Financial Instruments* ("IFRS 9") to evaluate the credit quality of its mortgages and loans receivable, and to calculate its expected credit losses ("ECL") on these receivables. Under IFRS 9, the accounting for mortgage and other loan loss impairments is based on a forward-looking ECL model, which requires an entity to record an allowance for expected credit losses for all loans and other debt instruments that are classified at either amortized cost or fair value through other comprehensive income ("FVOCI"). IFRS 9 impairment requirements also apply to loan commitments and financial guarantee contracts that are not measured at fair value through profit and loss ("FVTPL"). The calculated allowance is designed to be an unbiased and probability-weighted amount that has been determined by: evaluation of possible outcomes; the time value of money; reasonable and supportable information about past events, current conditions and forecasts of future 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. As such, the calculated ECL amount at a given measurement date depends on the entity's identification of increases or decreases in credit risk since initial recognition which involves significant management judgment.

At each measurement date, the calculation of ECL depends on the following key inputs:

- the probability of default ("PD") – an estimate of the likelihood of default over a specified time horizon;
- the loss given default ("LGD") – an estimate of the loss occurring at the time of default; and
- the exposure at default ("EAD") – an estimate of the exposure at the default date.

The determination of these inputs can be quite complex, particularly the determination of PD, as they must incorporate both factors unique to the entity and macroeconomic factors that can be associated with increases or decreases in credit risk.

Significant increases or decreases in credit risk since initial recognition will cause financial instruments to move among three "stages":

- Stage 1 – includes financial instruments that have not had a significant increase in credit risk ("SICR") since initial recognition. An allowance equal to expected credit losses resulting from default events over the next 12 months ("12-month ECL") is recognized.
- Stage 2 – includes financial instruments that have experienced a SICR since initial recognition, but for which there is no objective evidence of impairment at the reporting date. An allowance equal to expected credit losses resulting from default events over the expected life ("lifetime ECL") is recognized.
- Stage 3 – includes financial instruments that have objective evidence of impairment at the reporting date. The lifetime allowance is recognized.

The Bank's credit provisions are primarily associated with its uninsured non-prime mortgage loans, consisting of its RFA Alternative uninsured mortgages, its purchased uninsured mortgages, and its construction loans. The Bank has developed a PD Model for calculating ECL of its uninsured mortgages. The outputs are evaluated by management and may be adjusted to incorporate specific information or one-time events that have not yet been captured by the model.

As discussed above under *COVID-19 Pandemic* and *Credit Risk*, the Bank is vulnerable to the negative economic impacts of COVID-19. To ensure the effects of this economic shock event had been considered in credit risk ratings and the Bank's modelling process, a number of reasonable and supportable qualitative adjustments were applied based on the application of expert credit judgement. In determining whether a SICR occurred among those customers who had requested payment deferrals, the Bank considered the positive effect government support programs would have on probability of default. In assessing current and forecast economic conditions, consideration was given to COVID-19 and the offsetting effect significant government support measures would have on the unemployment rate. , In response to a second wave, the Bank has adopted a more pessimistic outlook of the economy which has been reflected in the scenarios weights.

As the COVID-19 pandemic unfolds, the Bank will continue to assess the need for qualitative adjustments to account for events and/or model or data limitations that have not yet been reflected in the quantitative estimate of ECL.

The table below shows the gross carrying amount by stage of the Bank's on-balance sheet mortgages and loans, as of September 30, 2020 and December 31, 2019.

(in thousands of $)				**September 30, 2020**
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Alt-A Solutions mortgages	**$ 313,357**	**$ 11,523**	**$ 4,130**	**$ 329,010**
Prime uninsured mortgages	**5,743**	**293**	**-**	**6,036**
Alt-A Eclipse mortgages	**199,595**	**3,481**	**-**	**203,076**
Non-securitized insured prime mortgages	**34,957**	**-**	**-**	**34,957**
Stamped insured mortgages	**10,804**	**-**	**-**	**10,804**
Securitized mortgages loans	**43,150**	**-**	**-**	**43,150**
Purchased insured mortgages	**37,113**	**-**	**-**	**37,113**
Construction loans	**51,150**	**-**	**-**	**51,150**
Total	**$ 695,869**	**$ 15,297**	**$ 4,130**	**$ 715,296**

(in thousands of $)				**December 31, 2019**
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Alt-A Solutions mortgages	$ 441,230	$ 27,499	$ 4,130	$ 472,859
Prime uninsured mortgages	7,562	-	-	7,562
Alt-A Eclipse mortgages	28,470	-	-	28,470
Non-securitized insured prime mortgages	74,700	-	-	74,700
Stamped insured mortgages	11,204	-	-	11,204
Securitized mortgages loans	86,865	-	-	86,865
Construction loans	23,516	-	-	23,516
Stamped multi-residential mortgages	8,976	-	-	8,976
Bridge loans	209	-	-	209
Total	$ 682,732	$ 27,499	$ 4,130	$ 714,361

The following tables provide a reconciliation of the opening to closing ECL balance for the Bank's uninsured residential mortgages for the quarters ending September 30, 2020 and December 31, 2019. The reconciling items shown below comprise the following components:

- originations, which reflect the increase in the allowance related to mortgages originated during the period;
- transfers between stages, which are assumed to occur prior to any corresponding remeasurement of the allowance;
- the decrease in the allowance related to mortgages derecognized during the period that did not incur a credit loss;
- the impact of changes to the ECL models and their inputs, including changes related to modifications of forward-looking indicators, which include macroeconomic conditions;
- write-offs of mortgages deemed uncollectible; and
- recoveries.

As the Bank has not experienced either write-offs or recoveries within any of its mortgage loan portfolios, no data is shown for the last two items.

(in thousands of $)	Three months ended September 30, 2020			
	Stage 1	Stage 2	Stage 3	Total
Uninsured residential mortgages				
Balance at the beginning of the period	$ 644	$ 252	$ 298	$ 1,194
Mortgages originated	217	-	-	217
Transfers from Stage 1	(106)	64	42	-
Transfers from Stage 2	202	(202)	-	-
Transfers from Stage 3	-	-	-	-
Mortgages paid or derecognized *	12	(7)	(58)	(53)
Remeasurement	(233)	73	(50)	(210)
Balance at the end of the period	$ 736	$ 180	$ 232	$ 1,148
Construction mortgages loans				
Balance at the beginning of the period	$ 107	$ -	$ -	$ 107
Mortgages originated	18	-	-	18
Balance at the end of the period	$ 125	$ -	$ -	$ 125
Total Allowance for credit losses	$ 861	$ 180	$ 232	$ 1,273

(in thousands of $)	Three months ended June 30, 2020			
	Stage 1	Stage 2	Stage 3	Total
Uninsured residential mortgages				
Balance at the beginning of the period	$ 577	$ 361	$ 46	$ 984
Mortgages originated	132	-	-	132
Transfers from Stage 1	(351)	207	144	-
Transfers from Stage 2	194	(194)	-	-
Transfers from Stage 3	-	-	-	-
Mortgages paid or derecognized *	(28)	(65)	(88)	(181)
Remeasurement	120	(57)	196	259
Balance at the end of the period	$ 644	$ 252	$ 298	$ 1,194
Construction mortgages loans				
Balance at the beginning of the period	$ 98	$ -	$ -	$ 98
Mortgages originated	9	-	-	9
Balance at the end of the period	$ 107	$ -	$ -	$ 107
Total Allowance for credit losses	$ 751	$ 252	$ 298	$ 1,301

** This amount includes maturing mortgages that have been renewed*

A financial instrument is credit impaired when one or more events has occurred that has a detrimental impact on the estimated cash flows. A loan is considered credit impaired when a default event has occurred (i.e., is 90 days past due) or has otherwise been identified as such by management based on observable data and objective evidence of impairment. Impaired loans are moved to Stage 3. Financial instruments cease to be impaired when all past due amounts, including interest, have been recovered, and the principal and interest are deemed fully collectible in accordance with original or revised contractual terms. This will result in a reverse migration back to Stage 2, with further migration back to Stage 1 if credit risk improves to the point that SICR since initial recognition no longer exists.

All of the Bank's mortgages are in a first lien position. In addition to having the underlying real property as collateral, insured mortgages provide additional protection in the event the proceeds from realizing the collateral are insufficient to repay in full the outstanding loan balance. The Bank's LGD is highest with respect to unsecured bridge loans, which no longer represents a portion of the Bank's overall lending portfolio.

Aging tables for the outstanding principal balances of the Bank's mortgages and loans are shown below:

(in thousands of $)						September 30, 2020
	Current	1 - 30 days	31 - 60 days	61 - 90 days	> 90 days	Total
Alt-A Solutions mortgages	$ 318,297	$ 7,350	$ 215	$ 250	$ 3,083	$ 329,195
Prime uninsured mortgages	6,036	-	-	-	-	6,036
Alt-A Eclipse mortgages	202,501	834	-	-	-	203,335
Non-securitized insured prime mortgages	33,788	741	-	-	-	34,529
Purchased insured mortgages	35,438	1,675	-	-	-	37,113
Stamped insured mortgages	10,600	204	-	-	-	10,804
Securitized mortgages loans	42,581	-	430	-	-	43,011
Constructon loans	51,462	-	-	-	-	51,462
Bridge loans	-	-	-	-	-	-
Total mortgages and loans	$ 700,703	$ 10,804	$ 645	$ 250	$ 3,083	$ 715,485

						December 31, 2019
	Current	1 - 30 days	31 - 60 days	61 - 90 days	> 90 days	Total
Alt-A Solutions mortgages	$ 456,764	$ 2,357	$ 8,533	$ 1,376	$ 4,130	$ 473,160
Prime uninsured mortgages	7,562	-	-	-	-	7,562
Alt-A Eclipse mortgages	28,534	-	-	-	-	28,534
Non-securitized insured prime mortgages	73,748	407	-	-	-	74,155
Stamped insured mortgages	11,204	-	-	-	-	11,204
Securitized mortgages loans	85,728	749	-	-	-	86,477
Constructon loans	23,516	-	-	-	-	23,516
Stamped multi-residential mortgages	9,199	-	-	-	-	9,199
Bridge loans	209	-	-	-	-	209
Total mortgages and loans	$ 696,464	$ 3,513	$ 8,533	$ 1,376	$ 4,130	$ 714,016

The increase in the 1 – 30 days bucket reflects the prolonged impact COVID-19 has had on delinquencies. The Bank will continue to actively monitor the aging analysis to identify and mitigate credit risk by taking timely and appropriate actions.

As of September 30, 2020, the Bank had not recorded a credit provision against the insured portfolio, including both sold and unsold securitized mortgages. Management has determined that the ECL on these mortgages is immaterial, given both their high credit quality and the fact that the mortgages are insured against default. 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 of September 30, 2020.

As of September 30, 2020, the Bank had specifically identified eight RFA Alternative loans totaling $4.1 million as impaired, and individually assessed (Stage 3) allowance for credit losses of $232 thousand was recorded for these loans. As of September 30, 2020, 97.9% of the performing RFA Alternative mortgages were current, compared to 97.4% as of December 31, 2019.

LIQUIDITY AND FUNDING RISK

Liquidity and funding risk are the risks that the Bank is unable to generate or maintain sufficient funds to meet its financial obligations as they come due. This risk arises from the fluctuations in the Bank's cash flows that are associated with its lending and deposit taking, investing, loan sales, securitizations, other business activities, and unexpected national and global economic disruptions such as those currently being observed due to COVID-19. 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 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 economic disruption beyond the Bank's control. In cases where the disruption is severe or prolonged the Bank could be required to take further contingency actions, which could include curtailing lending activity.

At September 30, 2020, the most significant source of potential disruption to the Bank's liquidity was the negative economic impacts that have accompanied COVID-19, in particular the risk that a significant percentage of the Bank's mortgagees could default on their mortgages, thereby negatively affecting the Bank's cash flow. COVID-19 did not become a significant economic disruptor until the last half of March, and at September 30, 2020 the Bank's cash and operating liquidity had remained strong. However, the Bank continues to monitor the situation and will adjust its forecasts and planned business activities when and as it deems necessary.

The Bank's liquid assets are as shown below:

	As at	
(in thousands of $)	**September 30, 2020**	**December 31, 2019**
Deposits with regulated financial institutions	**$ 112,682**	$ 133,281
Debt securities	**23,932**	22,959
Loans held for sale	**27,501**	72,998
Stamped mortgages	**10,804**	11,204
Total liquid assets	**$ 174,919**	$ 240,442

The Bank's main sources of cash and operating liquidity are deposits and net interest income, and to a lessor extent loan sales. The Bank's liquidity has also benefited from the cash proceeds received from the asset sales and direct capital injection following the Q4 2019 RFA Transaction. The Bank's originated on-balance sheet mortgages, in particular RFA Alternative uninsured loans, are primarilyfunded by the Bank's deposit taking activity.

The Bank's deposits are currently sourced through the deposit broker network and are CDIC-insured fixed-term GICs. The Bank's access to deposits depends upon several 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 broker network is expected to have more than enough 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.

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.

The Bank manages duration mismatches between loans and deposits within its risk limits. Shown below is a maturity gap table comparing the principal amounts of the Bank's non-securitized on-balance sheet mortgages to GIC deposits.

(in thousands of $)					As at September 30, 2020
	0 - 3 Months	3 - 12 Months	1 to 3 Years	Over 3 Years	Total
Remaining contractual term					
Single-family residential mortgages	$ 110,949	$ 346,836	$ 130,080	$ 33,147	$ 621,012
Deposits (GICs)	84,881	255,994	252,167	64,259	657,301
Net maturity	$ 26,068	$ 90,842	$ (122,087)	$ (31,112)	$ (36,289)

INTEREST RATE RISK

Interest rate risk is the risk of lost earnings or capital due to changes in interest rates. The Bank is exposed to interest rate risk due to differences between the maturity dates of interest-rate sensitive assets and liabilities. The objective of interest rate risk management is to ensure that the Bank is able to realize stable and predictable net interest margin ("NIM"), 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 respect 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.

Historically, the Bank was 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 the risk increases in a rate-rising environment. If 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 to date 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 table below details the results of sensitivity analysis of interest rate increases and decreases during the 12-month period beginning on September 30, 2020. 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, 2020	
(in thousands of $, except %)	**Increase in interest rates**	**Decrease in interest rates**
100 basis point parallel shift		
Impact on net interest income	**$ 2,321**	**$ (2,391)**
Impact on EVE	**3,038**	**(3,361)**
EVE as a % of shareholders' equity	**2.03%**	**(2.25%)**
200 basis point parallel shift		
Impact on net interest income	**$ 4,731**	**$ (4,785)**
Impact on EVE	**6,104**	**(6,839)**
EVE as a % of shareholders' equity	**4.09%**	**(4.58%)**

The Bank is exposed to interest rate risk due to differences between the maturity dates of interest-rate sensitive assets and liabilities. Shown below is the September 30, 2020 position of the Bank's assets, liabilities and equity by maturity and weighted average contractual rate.

(in thousands of $, except %)	Floating Rate	0 to 3 Months	4 Months to 1 Year	1 Year to 5 Years	Non Rate Sensitive	Total [1]
						September 30, 2020
Assets						
Cash and restricted cash	$ 141,203	$ -	$ -	$ -	$ -	$ 141,203
Weighted Average Contractual Rate	0.45%	-	-	-	-	0.45%
Debt securities	-	-	-	23,932	-	23,932
Weighted Average Contractual Rate	-	-	-	2.48%	-	2.48%
Non-securitized mortgages - Purchased insured loans - HFS	8,316	577	159	18,021	428	27,501
Weighted Average Contractual Rate	2.47%	2.62%	2.79%	2.19%	-	2.25%
Securitized mortgages held on-balance sheet	23,366	9,925	9,149	570	140	43,150
Weighted Average Contractual Rate	1.96%	2.63%	2.49%	2.44%	-	2.23%
Non-securitized mortgages - Alt-A Solutions	-	81,352	214,151	33,693	(1,041)	328,155
Weighted Average Contractual Rate	-	5.30%	5.66%	5.12%	-	5.54%
Non-securitized mortgages - Alt-A Eclipse loans	-	15,990	107,473	79,872	(547)	202,788
Weighted Average Contractual Rate	-	4.18%	3.95%	3.90%	-	3.96%
Non-securitized mortgages - Purchased insured loans	95	18,757	18,142	119	-	37,113
Weighted Average Contractual Rate	2.05%	6.85%	6.83%	1.94%	-	6.81%
Non-securitized mortgages - Construction loan	51,462	-	-	-	(438)	51,024
Weighted Average Contractual Rate	4.66%	-	-	-	-	4.70%
Non-securitized mortgages - stamped mortgages	5,423	-	-	5,381	-	10,804
Weighted Average Contractual Rate	1.56%	-	-	2.71%	-	2.13%
Non-securitized mortgages - other	1,770	232	952	10,538	(4)	13,488
Weighted Average Contractual Rate	1.71%	3.89%	2.57%	3.26%	-	3.02%
Other assets	-	-	-	-	73,799	73,799
Weighted Average Contractual Rate	-	-	-	-	-	0.00%
Total assets	$ 231,635	$ 126,833	$ 350,026	$ 172,126	$ 72,337	$ 952,957
Weighted Average Contractual Rate	1.65%	5.17%	5.10%	3.34%	-	3.57%
Liabilities						
Cashable GICs [2]	$ -	$ 5,496	$ -	$ -	$ (11)	$ 5,485
Weighted Average Contractual Rate	-	0.64%	-	-	-	0.64%
Non-cashable GICs	-	79,385	259,125	313,295	(2,056)	649,749
Weighted Average Contractual Rate	-	2.64%	2.13%	2.43%	-	2.35%
Securitization liabilities	28,996	14,691	9,148	510	-	53,345
Weighted Average Contractual Rate	0.94%	1.94%	1.89%	2.11%	-	1.39%
Other liabilities	-	-	-	-	86,242	86,242
Weighted Average Contractual Rate	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	158,136	158,136
Weighted Average Contractual Rate	-	-	-	-	-	-
Total liabilities and shareholders' equity	$ 28,996	$ 99,572	$ 268,273	$ 313,805	$ 242,311	$ 952,957
Weighted Average Contractual Rate	0.94%	2.43%	2.12%	2.43%	-	1.68%
Excess (deficiency) of assets over liabilities and shareholders' equity	$ 202,639	$ 27,261	$ 81,753	$ (141,679)	$ (169,974)	$ -

[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 changes 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.

As of September 30, 2020, the Bank's investment risk is largely limited to its CMBs having a par value of $22.3 million and fair value of $23.9 million. 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 convertible to cash and the Bank considers them to be part of its liquid assets.

OPERATIONAL RISK

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 take many forms such as fraud or other financial loss, reputational harm, regulatory enforcement actions, 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, 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 noted above under *COVID-19 Pandemic*, the Bank's operational risk planning included the possibility of this type of disruption. Several months prior to the beginning of the pandemic, the Bank had already tested its Work from Home Protocol. The majority of employees were therefore able to begin working from home immediately after given the directive. The Bank added and redesigned certain of its controls to accommodate its Work from Home Protocol.

Mortgage fraud risk

As part of its 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. As mortgage underwriting and mortgage insurance qualification requirements become more stringent, either as a result of changes in regulatory requirements, or through changes in general industry practice, the inherent risk of mortgage fraud such as misrepresentation in mortgage documents can increase. This is particularly the case when income qualification rules are tightened within an environment of high home prices and increasing interest rates. 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. In evaluating mortgage eligibility, the Bank relies on information provided by mortgage applicants and other third parties, including mortgage brokers.

The Bank has quality control and fraud management practices in place that are designed to mitigate mortgage fraud risk, by preventing and detecting misrepresentations of borrower information. These include enhanced documentation requirements for higher risk borrowers and greater due diligence with respect to new mortgage brokers. The Bank's financial position and results of operations could be negatively impacted if information is intentionally misleading or does not fairly represent an applicant's financial position and is not detected by the Bank's controls.

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 financial results.

REPUTATIONAL RISK

Reputational risk is the risk that stakeholders, including the general public, third parties with whom the Bank deals, regulators or employees, will, with or without basis, judge the Bank's operations, actions or business practices unfavorably. This could result in a decline in the Bank's earnings, economic value, capital, 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 processes related to managing reputational risk.

COMPLIANCE RISK

Compliance risk is the risk that the Bank is non-compliant with applicable legislation, regulatory requirements, or Board-mandated policies and procedures. It is particularly significant in instances where non-compliance could negatively impact the Bank's reputation and/or soundness. Compliance risk is managed primarily by the Bank's Chief Compliance Officer and Chief Anti-Money Laundering Officer, with assistance from other senior management.

CAPITAL DISCLOSURE TEMPLATE

	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	45,353
2	Retained earnings	111,589
3	Accumulated other comprehensive income (and other reserves)	1,194
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**	158,136
	Common Equity Tier 1 capital: regulatory adjustments	
28	Total regulatory adjustments to Common Equity Tier 1	(578)
29	**Common Equity Tier 1 capital (CET1)**	157,558
29a	**Common Equity Tier 1 capital (CET1) with transitional arrangements for ECL provisioning not applied**	157,423
	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)**	157,558
45a	**Tier 1 capital with transitional arrangements for ECL provisioning not applied**	157,423
	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	906
51	**Tier 2 capital before regulatory adjustments**	906
	Tier 2 capital: regulatory adjustments	
57	**Total regulatory adjustments to Tier 2 capital**	
58	**Tier 2 capital (T2)**	906
59	**Total capital (TC = T1 + T2)**	158,464
59a	**Total capital with transitional arrangements for ECL provisioning not applied**	158,464
60	**Total risk-weighted assets**	
60a	**Common Equity Tier 1 (CET1) Capital RWA**	460,101
60b	**Tier 1 Capital RWA**	460,101
60c	**Total Capital RWA**	460,101
	Capital Ratios	
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	34.24%
61a	Common Equity Tier 1 with transitional arrangements for ECL provisioning not applied	34.21%
62	Tier 1 (as percentage of risk-weighted assets)	34.24%
62a	Tier 1 with transitional arrangements for ECL provisioning not applied	34.21%
63	Total capital (as percentage of risk-weighted assets)	34.44%
63a	Total capital with transitional arrangements for ECL provisioning not applied	34.44%
	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%
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)	
80	*Current cap on CET1 instruments subject to phase out arrangements*	
81	*Amounts excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	
82	*Current cap on AT1 instruments subject to phase out arrangements*	
83	*Amounts excluded from AT1 due to cap (excess over cap after redemptions and maturities)*	
84	*Current cap on T2 instruments subject to phase out arrangements*	
85	*Amounts excluded from T2 due to cap (excess over cap after redemptions and maturities)*	

LEVERAGE RATIO TEMPLATE

	Item	Leverage Ratio Framework
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	952,957
2	(Asset amounts deducted in determining Basel III "all-in" Tier 1 capital)	(713)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**952,244**
	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	46,793
18	(Adjustments for conversion to credit equivalent amounts)	(24,782)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**22,011**
	Capital and Total Exposures	
20	**Tier 1 capital**	**157,558**
20a	**Tier 1 capital with transitional arrangements for ECL provisioning not applied**	**157,423**
21	**Total Exposures (sum of lines 3, 11, 16 and 19)**	**974,255**
	Leverage Ratios	
22	**Basel III leverage ratio**	**16.17%**
22a	**Basel III leverage ratio with transitional arrangements for ECL provisioning not applied**	**16.16%**