



BASEL III PILLAR 3 DISCLOSURES

DECEMBER 31, 2021

TABLE OF CONTENTS

NATURE OF OPERATIONS.....	1
BASIS OF PREPARATION	1
COVID-19 PANDEMIC UPDATE	2
RISK MANAGEMENT	3
CAPITAL MANAGEMENT	4
CREDIT RISK.....	7
LIQUIDITY AND FUNDING RISK	17
MARKET RISK.....	18
OPERATIONAL RISK	21
REPUTATIONAL RISK.....	23
REGULATORY AND LEGAL RISK	23
CAPITAL DISCLOSURE TEMPLATE	24
LEVERAGE RATIO TEMPLATE	25

**RFA BANK OF CANADA
BASEL III PILLAR 3 DISCLOSURES
DECEMBER 31, 2021**

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 of Canada 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"), its business activities are concentrated in the following three lines of lending business: residential mortgage (1-4 units), construction lending and commercial lending (including multi-units residential – 5+ units). The address of its registered office is 1 Yonge Street, Suite 2401, Toronto, Ontario, M5E 1E5.

On October 18, 2019, following a transaction that was announced on June 17, 2019, and approved by shareholders on August 16, 2019, all 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.

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 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 on the Bank's website. The Disclosures should be read as an update to information previously reported in those public filings.

COVID-19 PANDEMIC UPDATE

At the end of Q1 2021, Canada entered the third and wave of infections that further strained hospital capacity and resulted in new restrictions and lockdowns, including a six week stay at home order. By the end of Q2 2021, vaccination supply and inoculation rates ramped up quickly resulting in over 65% of Canadians with at least one dose, and over 25% fully vaccinated by early July 2021. This allowed the easing of many of the restrictions, and a new phased approach to fully reopening the economy, with the progression to each phase based on vaccination rates. By the end of Q3 2021, over 81% of eligible Canadians were fully vaccinated, with an additional 6% having received one dose. A new variant emerged during Q4 2021 that was known to be more contagious than previous variants, this resulted in lock-downs across the country which began to ease in late January 2022 with indications that restrictions still in place will continue to ease throughout Q1 and Q2 2022.

Impact on operations

The societal and economic disruption resulting from COVID-19 are largely unprecedented and virtually every industry and business has been affected financially and/or operationally. The Bank's operational risk management function included preparation for a major business disruption, and on March 16, 2020, the Bank invoked its Work from Home Protocol. The daily operations of the Bank have therefore continued with little disruption.

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 on March 27, 2020. The CEWS protects jobs by helping businesses keep employees on the payroll and encouraging employers to re-hire workers previously laid off. To qualify, businesses had to demonstrate that monthly revenue fell by a qualifying percentage compared against a reference period. Modified versions of this program were rolled out over the course of 2020 and 2021 the last of which that was applicable for the bank ended in September 2021.

The Bank has submitted applications to the Canada Revenue Agency ("CRA"), which resulted in the receipt of the wage subsidy for certain qualification periods.

Impact on RFA Bank business

Aligned with the Canadian residential mortgage industry, The Bank remains vulnerable to the potential economic impact of COVID-19, specifically mortgagors potentially going into arrears, subsequent to the winding down or removal of government assistance programs. Such an event could have a significant impact on the Bank's allowance and provision for credit losses and negatively affect cash flows. At December 31, 2021, the Bank's unrestricted cash position remained strong with a cash and cash equivalents balance of \$59 million. The Bank will continue to monitor the situation and will adjust its forecasts and planned business activities in response to the emerging events and as new information becomes available.

RISK MANAGEMENT

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. Many of these risks cannot be directly controlled by the Bank.

Risk Management is an integral component of the Bank and supports the achievement of sustainable growth and returns while maintaining an appropriate balance between risk and return. The key risks faced by the Bank include strategic and business, credit, market, liquidity and funding, capital adequacy, operational, reputational, and regulatory and legal. The Bank's risk management practices includes risk governance, the risk appetite and enterprise risk management framework, risk assessment, control, monitoring and reporting. These risk practices are continually reviewed and enhanced.

Risk Governance

The Board of Directors is responsible for providing strategic direction, guidance, and oversight across the bank, including the Bank's Enterprise Risk Management ("ERM") and risk appetite framework. The risk appetite framework reflects the aggregate level and type of risk that the Bank is willing to accept or to avoid, in order to achieve its business objectives. The Bank's ERM process involves the Bank's Board of Directors, management and their risk committees, and other personnel. It is applied in strategy-setting and across the Bank, designed to identify potential events that may affect the Bank, and manage risk to be within the risk appetite, and provide reasonable assurance regarding the achievement of objectives.

The Bank's risk governance follows the Three Lines of Defense model:

- *First line of defense* - Employees within each business line owns the risk, each area will identify, accept, mitigate, and manage risk on a day-to-day basis, adhering to the established policies (RMUP, risk appetite) and supporting guidelines and procedures of the Bank (RMUG). This is also referred to as operational management.
- *Second line of defense* - The risk management, compliance and finance functions represented by the Chief Risk Officer, Chief Compliance Officer, and Chief Financial Officer respectively, establish policy and provide direction, guidance, methodology, tools and independent monitoring and analysis of first line of defense risk taking and risk management activities. The oversight functions are responsible for providing enterprise-wide oversight of operational management. These groups are also referred to as oversight management.
- *Third line of defense* - Internal audit provides independent assurance on the adequacy and effectiveness of the ERM framework with the supporting practices and compliance of the first and second lines of defense. The Bank's Chief Internal Auditor reports directly to the Audit Committee and administratively to the Chief Executive Officer.

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

Enterprise Risk Appetite Statement

The Bank will:

- Only take risks that fit the business strategy and that can be understood and managed, and do not result in significant earnings volatility or expose the Bank to any significant single loss event.
- Maintain adequate capital and a conservative liquidity profile that meet or exceed regulatory requirements.
- Avoid excessive concentrations of risk.
- Protect the Bank's reputation at all times with all key stakeholders.
- Conduct business with honesty, integrity, respect, and high ethical standards.
- Deal with trustworthy and reputable third parties after conducting appropriate due diligence and implementing oversight.
- Maintain financial resilience and operational readiness for extreme events.
- Ensure sound management of operational and regulatory compliance risks and maintain a strong risk culture.
- Incorporate risk and compliance measures into performance and reward measurement programs.
- Acquire strategic investments after conducting appropriate due diligence that considers risk, opportunity costs and impact on the Bank's capital ratio.

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 December 31, 2021, this has not occurred. OSFI's guidelines on adjusted capital treatment related to COVID-19 are discussed in this section.

The Bank has a Board-approved Capital Management Policy ("CMP") that is aligned with the Bank's ERM, risk appetite and strategic plan. The CMP governs the quantity and quality of capital held and ensures that it meets regulatory capital requirements. Its overall objective is to ensure 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 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") in accordance with OSFI Guideline E-19. The Bank's risk identification and assessment process for capital adequacy risk includes:

- Escalation of current and emerging risks to the Asset, Liability and Capital Committee ("ALCCO") and the ERM Committee of the Board, and review of actual results against plan and revised forecasts 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, and
- 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 view that the Investors may be interested in injecting further equity capital into the Bank over the next five years to support balance sheet growth. 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

	December 31, 2021	December 31, 2020
	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	118,907	112,248
Accumulated other comprehensive income	540	1,116
Eligible Stage 1 and Stage 2 allowances	167	79
Less: Regulatory adjustments to CET 1 (Note 1)	(59)	(562)
Total CET 1 capital	\$ 164,908	\$ 158,234
Additional Tier 1 capital	-	-
Total Tier 1 capital	\$ 164,908	\$ 158,234
Total Tier 2 capital (eligible Stage 1 and Stage 2 allowances)	1,065	853
Total regulatory capital	\$ 165,973	\$ 159,087

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

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 \$167 thousand increase to its CET1 capital as of December 31, 2021.

The Bank must maintain minimum levels of capital 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 Bank's capital structure is shown in the table below as of December 31, 2021, the Bank had 39,514,043 shares outstanding.

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 December 31, 2021.

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.

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

	December 31, 2021			December 31, 2020		
	Balance Sheet	Effective Risk Weight	Risk-Weighted Amount	Balance Sheet	Effective Risk Weight	Risk-Weighted Amount
	All-In Basis			All-In Basis		
<i>(in thousands of \$)</i>						
Cash and cash equivalents	\$ 63,418	20.00%	\$ 12,684	\$ 143,608	20.00%	\$ 28,722
Debt Securities	49,016	0.00%	-	23,826	0.00%	-
Equity Securities	(427)	0.00%	-	-	0.00%	-
Insured residential mortgages	66,606	3.45%	2,298	67,840	2.09%	1,418
Uninsured residential mortgages	1,036,338	35.01%	362,812	564,876	35.37%	199,791
Construction mortgages	209,732	100.00%	209,732	65,035	100.00%	65,035
Commercial mortgages	95,060	100.00%	95,060	-	100.00%	-
Other assets	91,000	87.64%	79,756	71,332	98.74%	70,435
Total assets subject to risk rating	\$ 1,610,742	47.33%	\$ 762,341	\$ 936,517	39.02%	\$ 365,401
Intangible assets	-	-	-	329	-	-
Allowance for credit losses	(1,235)	0.23%	(3)	(1,132)	17.59%	(199)
Total assets	\$ 1,609,507		\$ 762,338	\$ 935,714		\$ 365,202
Off-balance sheet exposure (loan commitments)			79,699			27,106
Total assets and off-balance sheet exposure	\$ 1,609,507		\$ 842,038	\$ 935,714		\$ 392,308
Operational risk (average three-year annual gross income)	0		70,309			86,730
Total risk-weighted assets	\$ 1,609,507		\$ 912,346	\$ 935,714		\$ 479,038

The Bank's capital ratios and leverage ratio are shown in the table 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

	December 31, 2021	December 31, 2020
	All-In Basis	All-In Basis
Regulated capital to risk-weighted assets		
CET 1 ratio	18.08%	33.03%
Tier 1 capital ratio	18.08%	33.03%
Total regulatory capital ratio	18.19%	33.21%
Leverage ratio	9.76%	16.44%
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 residential 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 maintains a stock of unencumbered high-quality liquid assets ("HQLA") that is appropriate to its cash flow profile and that can be readily converted into cash without incurring undue loss. Assets used in a repurchase transaction or that are pledged for any reason are considered encumbered and are not included in the stock of liquid assets when calculating the Bank's liquidity profile. Liquid assets, other than cash and overnight term deposits, are subject to appropriate valuation reductions if sold quickly or before maturity. The liquidity portfolio must be of sufficient size to allow the Bank to operate in accordance with its stated liquidity risk appetite. The Bank's credit risk on liquid assets, the majority of which are cash, cash equivalents and insured mortgages, 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 residential 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. The associated residual credit risk to the Bank was minimal.

Beginning in Q2 2018, the Bank began originating 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 default insurance due to one or more credit risk 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 December 31, 2021, no loans had been returned to the Bank.

Since the RFA acquisition in Q4 2019, the Bank has largely ceased selling prime insurable and uninsurable single family residential mortgages to investors. As such, the Bank's sale activity has been 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") program. 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 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 goes into default or becomes delinquent. 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 single-family mortgages. This occurred with the launch of the Bank's Alt-A lending program, which was relaunched with a new name in 2020. The program consists of non-prime uninsured mortgages that have typically been funded with CDIC insured deposits. The Bank mitigates its credit 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 new single-family originated portfolio.

In Q4 2019, the Bank expanded its uninsured lending to include construction loans consisting of construction loans, land development loans and 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.

In Q2 2021, the Bank diversified its uninsured lending further to include funding of commercial term mortgages, consisting of loans relating to mixed purpose property including multi-unit condominium apartments, commercial, industrial and retail spaces. The Bank also applied the same credit risk mitigation procedures on the commercial term loans as performed on the construction loans mentioned above.

Purchases

The Bank purchases non-prime uninsured mortgages from a Third Party approved lender. The credit quality of these mortgages is consistent with the Bank's single-family originated loans. 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 sell back, within a specified time frame, residential mortgages that do not conform with the Bank's credit standards. To date the Bank has not incurred any losses on these purchases. In addition to the non-prime uninsured mortgage

purchases, the Bank also purchases prime insured open mortgages from the same Third Party. Although insured against credit losses, the Bank mitigates its credit risk by completing quarterly reviews of original documentation on a sample basis.

The bank also repurchases renewed prime loans out of previously securitized NHA MBS pools. These loans are held on the Bank's balance sheet with the intention of selling. The Bank considers the credit risk on these mortgages to be minimal.

As discussed above, the Bank holds a portfolio of HQLA on its balance sheet that are readily converted into cash. Included in this portfolio are prime insured mortgages that have been purchased from a related party at fair value and stamped for NHA MBS, but not sold.

Managing and monitoring credit risk

The Bank manages credit risk through its Risk and Governance Committee ("RGC"), Construction Credit Committee ("CCC") and Residential Lending Committee ("RLC"). The RLC and RGC meet monthly to review risk factors in the Bank's lending portfolios. The CCC meets weekly to manage new construction credit submissions and the overall portfolio quality trends. Adjustments to the Bank's lending policies are recommended to ERM for approval and are presented to the Board for final approval.

The Bank mitigates its credit risk on the mortgages that it underwrites by operating within detailed Board-approved lending credit policies, management standards, and underwriting procedures in compliance with OSFI's B-20 Guideline. These policies and procedures take into consideration such key factors as credit quality, loan-to-value ratio, down payment, debt service ratio, income sustainability, property value assessment and location. Underwriting 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 quality control and independent asset quality procedures are performed on a significant percentage of mortgage files prior to funding. Post-funding reviews are also conducted by the second line of defense to provide continuous feedback and monitoring of mortgage credit quality.

The Bank's mortgage origination, underwriting and asset quality processes and controls are designed to provide a high level of assurance that the mortgages it originates comply with the Bank policies, underwriting requirements and mitigates misrepresentations or errors that would increase credit risk beyond the Bank's tolerance. However, there is no absolute assurance that an employee, approved broker or borrower will not inadvertently or deliberately violate the Bank's underwriting or other policies or misrepresent information in the mortgage application. With reasonable and prudent controls in place, these risks can be mitigated, however not fully eliminated. 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 (job losses), and in a local 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 exposure of the Bank's financial assets are their carrying values as reflected on the statement of financial position plus undrawn commitments primarily related to commercial and construction loans. The Bank had \$161 million of undrawn construction and commercial commitments as at December 31, 2021, for which \$301 thousand was set aside as an allowance 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 Ontario (35%), British Columbia (18%), Quebec (10%), Saskatchewan (7%), Nova Scotia (14%), Alberta (12%), and Manitoba (3%).

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 currently originate residential business in Quebec, however a small portion of its purchased insured open mortgages are located in that province.

The table below summarizes the Bank's outstanding mortgage balance net of deferred unamortized cost and allowance for credit losses, as of December 31, 2021.

<i>(in thousands of \$)</i>	Total Single Family Uninsured	Total Single Family Insured	Construction Loans	Commercial Loans	All Balance Sheet Loans
January 1, 2021	\$ 564,925	\$ 67,841	\$ 65,645	\$ -	\$ 698,411
Originations	412,018	-	-	-	412,018
Purchases / Buybacks	422,540	287,132	200,016	95,425	1,005,113
Sales / Derecognition	(19,297)	(78,213)	-	-	(97,510)
Transfers between portfolios	-	-	-	-	-
Net repayments and other ¹	(343,848)	(210,154)	(55,928)	(365)	(610,296)
December, 2021	\$ 1,036,338	\$ 66,606	\$ 209,732	\$ 95,060	\$ 1,407,736
Allowance for credit losses	(486)	-	(516)	(233)	(1,235)
Net at December 31, 2021	\$ 1,035,852	\$ 66,606	\$ 209,216	\$ 94,827	\$ 1,406,501
Gross loans excluding deferred costs and fees	\$ 1,037,806	\$ 65,904	\$ 211,600	\$ 95,409	\$ 1,410,718
Allowance for credit loss as a % of gross loans excluding deferred costs and fees	(0.05%)	0.00%	(0.24%)	(0.25%)	(0.09%)

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

<i>(in thousands of \$)</i>	December 31, 2021				
	Alberta	British Columbia	Ontario	All Other Provinces	Total
Held for sale	\$ 193	\$ -	\$ 1,149	\$ -	\$ 1,342
Held to collect					
Single-family insured	\$ 13,387	\$ 11,425	\$ 32,814	\$ 7,638	\$ 65,264
Single-family uninsured	99,158	185,677	732,856	18,646	1,036,337
Construction and Commercial loans	55,143	70,041	171,554	8,055	304,793
Total held to collect	\$ 167,688	\$ 267,143	\$ 937,224	\$ 34,339	\$ 1,406,394
As a % of portfolio	11.92%	18.99%	66.64%	2.44%	100.00%
All gross loans	\$ 167,881	\$ 267,143	\$ 938,373	\$ 34,339	\$ 1,407,736
As a % of portfolio	11.93%	18.98%	66.65%	2.44%	100.00%

	December 31, 2020				
	Alberta	British Columbia	Ontario	All Other Provinces	Total
Held for sale	\$ 1,256	\$ 527	\$ 4,926	\$ 836	\$ 7,545
Held to collect					
Single-family insured	\$ 10,192	\$ 4,278	\$ 40,614	\$ 5,211	\$ 60,295
Single-family uninsured	32,253	102,389	423,182	7,052	564,876
Construction and Commercial loans	15,229	11,331	38,475	-	65,035
Total held to collect	\$ 57,674	\$ 117,998	\$ 502,271	\$ 12,263	\$ 690,206
As a % of portfolio	8.35%	17.10%	72.77%	1.78%	100.00%
All gross loans	\$ 58,930	\$ 118,525	\$ 507,197	\$ 13,099	\$ 697,751
As a % of portfolio	8.44%	16.99%	72.69%	1.88%	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.

	December 31, 2021				
	Alberta	British Columbia	Ontario	All Other Provinces	Total
Held for sale	95.00%	0.00%	85.29%	0.00%	86.68%
Held to collect					
Single-family insured	78.33%	80.53%	77.55%	78.78%	78.37%
Single-family uninsured	76.09%	69.97%	69.20%	75.17%	70.11%
Total held to collect	76.36%	70.58%	69.56%	76.22%	70.60%
All gross loans	76.39%	70.58%	69.58%	76.22%	70.62%

	December 31, 2020				
	Alberta	British Columbia	Ontario	All Other Provinces	Total
Held for sale	93.42%	83.09%	88.18%	93.95%	89.34%
Held to collect					
Single-family insured	90.33%	86.25%	80.62%	87.60%	83.27%
Single-family uninsured	74.93%	70.71%	71.27%	73.61%	71.40%
Total held to collect	78.63%	71.33%	72.09%	79.55%	72.55%
All gross loans	79.06%	71.39%	72.26%	80.47%	72.75%

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

<i>(in thousands of \$)</i>	December 31, 2021			
	Within 1 year	1 - 3 years	3 - 5 years	Total
RFA Alternative mortgages	\$ 281,788	\$ 254,742	\$ 771	\$ 537,300
Prime uninsured mortgages	-	2,026	1,482	3,508
Alt-A third party mortgages	308,313	188,685	-	496,998
Non-securitized insured prime mortgages	-	201	1,342	1,542
Purchased insured mortgages	18,944	-	-	18,944
Stamped insured mortgages	1,652	6,296	37,469	45,417
Securitized mortgages loans	-	-	-	-
Construction loans	78,831	132,768	-	211,600
Stamped multi-residential mortgages	-	-	-	-
Commercial loans	-	76,684	18,725	95,409
Total mortgages and loans	\$ 689,529	\$ 661,401	\$ 59,788	\$ 1,410,718

	December 31, 2020			
	Within 1 year	1 - 3 years	3 - 5 years	Total
RFA Alternative mortgages	\$ 274,621	\$ 45,933	\$ 806	\$ 321,360
Prime uninsured mortgages	1,527	2,208	1,154	4,889
Alt-A third party mortgages	154,348	84,529	-	238,877
Non-securitized insured prime mortgages	2,573	3,137	11,092	16,802
Purchased insured mortgages	19,875	-	-	19,875
Stamped insured mortgages	2,799	7,214	-	10,013
Securitized mortgages loans	20,988	-	-	20,988
Construction loans	21,006	44,639	-	65,645
Total mortgages and loans	\$ 497,737	\$ 187,660	\$ 13,052	\$ 698,449

Expected credit losses

The Bank complies with the impairment requirements of *IFRS 9: Financial Instruments* ("IFRS 9") to recognize a loss allowance for expected credit losses on financial assets. Under IFRS 9, the accounting for impairment is based on a forward-looking expected credit loss ("ECL") model, which requires an entity to record an allowance for all loans and other debt instruments that are classified and measured 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 change 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, which must incorporate both factors unique to the entity and macroeconomic variables 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 experienced 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 are credit impaired or in default. The lifetime allowance is recognized.

The Bank’s credit provision incorporates its originated single-family portfolio, its purchased mortgages, and its commercial and construction loans, as well as outstanding commitments on these portfolios. The Bank has developed a PD Model for calculating the allowance for credit losses for its uninsured single-family mortgage portfolio. The adequacy of the allowance is 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, the Bank is vulnerable to the negative economic impacts of COVID-19. In response to the pandemic, and the uncertainty as it relates to the economy, the Bank adopted a more pessimistic outlook of the economy compared to before the pandemic, which has been reflected in the scenario weights. The impact of COVID-19 on the Bank’s provision for credit losses has not been as severe as initially expected and the allowance for credit losses as a percentage of total assets has returned to near pre-pandemic levels.

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 December 31, 2021, and December 31, 2020.

(in thousands of \$)

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
RFA Alternative mortgages	\$ 525,358	\$ 11,321	\$ 144	\$ 536,822
Prime uninsured mortgages	3,508	-	-	3,508
Alt-A third party mortgages	494,635	1,373	-	496,008
Non-securitized insured prime mortgages	2,029	-	-	2,029
Stamped insured mortgages	45,633	-	-	45,633
Securitized mortgages loans	-	-	-	-
Purchased insured mortgages	18,944	-	-	18,944
Construction loans	209,732	-	-	209,732
Commercial loans	95,060	-	-	95,060
Stamped multi-residential	-	-	-	-
Total	\$ 1,394,898	\$ 12,694	\$ 144	\$ 1,407,736

(in thousands of \$)

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
RFA Alternative mortgages	\$ 302,754	\$ 15,198	\$ 3,207	\$ 321,159
Prime uninsured mortgages	4,889	-	-	4,889
Alt-A third party mortgages	236,173	2,655	-	238,828
Non-securitized insured prime mortgages	16,207	-	696	16,903
Stamped insured mortgages	10,013	-	-	10,013
Securitized mortgages loans	21,049	-	-	21,049
Purchased insured mortgages	19,875	-	-	19,875
Construction loans	65,035	-	-	65,035
Total	\$ 675,995	\$ 17,853	\$ 3,903	\$ 697,751

The following tables provide a reconciliation of the opening to closing ECL balance for the Bank's portfolio for the quarters ending December 31, 2021, and December 31, 2020. The reconciling items shown below comprise the following components:

- Originations and purchases, which reflect the increase in the allowance related to mortgages originated and purchased 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 scheduled and unscheduled run-off of mortgages, maturities or payouts during the period that did not incur a credit loss;
- the impact of changes to the ECL models and their inputs, including changes to scenarios, probability weights, and forward-looking information;
- write-offs of mortgages deemed uncollectible; and
- recoveries.

As the Bank has not experienced credit related 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 December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Residential Mortgages				
Balance at the beginning of the period	\$ 498	\$ 97	\$ 71	\$ 667
Mortgages originated	60	-	-	60
Transfers from Stage 1	(330)	395	(65)	-
Transfers from Stage 2	77	(77)	-	-
Transfers from Stage 3	-	-	-	-
Mortgages paid or derecognized *	(34)	(20)	-	(55)
Remeasurement	199	(382)	(3)	(186)
Balance at the end of the period	\$ 470	\$ 13	\$ 3	\$ 486
Construction mortgages loans				
Balance at the beginning of the period	\$ 507	\$ -	\$ -	\$ 507
Mortgages originated	9	-	-	9
Balance at the end of the period	\$ 516	\$ -	\$ -	\$ 516
Commercial mortgages loans				
Balance at the beginning of the period	\$ 143	\$ -	\$ -	\$ 143
Mortgages originated	90	-	-	90
Balance at the end of the period	\$ 233	\$ -	\$ -	\$ 233
Total Allowance for credit losses	\$ 1,219	\$ 13	\$ 3	\$ 1,235

	Three months ended December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Residential Mortgages				
Balance at the beginning of the period	\$ 736	\$ 180	\$ 232	\$ 1,148
Mortgages originated	93	-	-	93
Transfers from Stage 1	(28)	25	3	-
Transfers from Stage 2	89	(90)	1	-
Transfers from Stage 3	-	-	-	-
Mortgages paid or derecognized *	(90)	(12)	(204)	(306)
Remeasurement	(234)	104	167	37
Balance at the end of the period	\$ 566	\$ 207	\$ 199	\$ 972
Construction mortgages loans				
Balance at the beginning of the period	\$ 125	\$ -	\$ -	\$ 125
Mortgages originated	35	-	-	35
Balance at the end of the period	\$ 160	\$ -	\$ -	\$ 160
Total Allowance for credit losses	\$ 726	\$ 207	\$ 199	\$ 1,132

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 the loan in full.

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

(in thousands of \$)

	December 31, 2021					Total
	Current	1 - 30 days	31 - 60 days	61 - 90 days	> 90 days	
RFA Alternative mortgages	\$ 523,515	\$ 10,220	\$ 2,476	\$ 946	\$ 144	\$ 537,300
Prime uninsured mortgages	3,508	-	-	-	-	3,508
Alt-A third party mortgages	496,998	-	-	-	-	496,998
Non-securitized insured prime mortgages	1,542	-	-	-	-	1,542
Purchased insured mortgages	18,944	-	-	-	-	18,944
Stamped insured mortgages	45,417	-	-	-	-	45,417
Securitized mortgages loans	-	-	-	-	-	-
Construction loans	211,600	-	-	-	-	211,600
Stamped multi-residential mortgages	-	-	-	-	-	-
Commercial loans	95,409	-	-	-	-	95,409
Total mortgages and loans	\$1,396,933	\$ 10,220	\$ 2,476	\$ 946	\$ 144	\$1,410,718

	December 31, 2020					Total
	Current	1 - 30 days	31 - 60 days	61 - 90 days	> 90 days	
RFA Alternative mortgages	\$ 308,054	\$ 7,966	\$ 1,610	\$ 2,526	\$ 1,204	\$ 321,360
Prime uninsured mortgages	4,889	-	-	-	-	4,889
Alt-A third party mortgages	235,406	3,471	-	-	-	238,877
Non-securitized insured prime mortgages	16,106	-	266	-	430	16,802
Purchased insured mortgages	18,747	902	226	-	-	19,875
Stamped insured mortgages	10,013	-	-	-	-	10,013
Securitized mortgages loans	20,561	427	-	-	-	20,988
Construction loans	65,645	-	-	-	-	65,645
Total mortgages and loans	\$ 679,421	\$ 12,766	\$ 2,102	\$ 2,526	\$ 1,634	\$ 698,449

The decrease in past due balances reflects the improved performance after the 2020 impact COVID-19 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.

Management determined that the ECL on the insured portfolio was immaterial, given the high credit quality and 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 December 31, 2021.

As of December 31, 2021, the Bank had specifically identified one RFA Alternative loans totaling \$144 thousand as impaired, and individually assessed (Stage 3) allowance for credit losses of \$3 thousand was recorded for these loans. As of December 31, 2021, 97.5% of the performing RFA Alternative mortgages were current, compared to 96.2% as of December 31, 2020.

LIQUIDITY AND FUNDING RISK

Liquidity and funding risk is the inability to generate or obtain sufficient cash or equivalents in a timely manner and at a reasonable cost to meet its obligations (both on-and off-balance sheet) as they fall 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's risk management policies including the Liquidity and Funding Management Policy 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 such as the Liquidity Adequacy Requirements and OSFI Guideline B-6.

The 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 horizon. 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 and selling of assets to generate cashflow.

COVID-19 did not materially affect the Bank's cash or operating liquidity, which has remained strong. However, the Bank continues to monitor the situation and will adjust its forecasts and planned business activities, as necessary.

The Bank's liquid assets are as shown below:

<i>(in thousands of \$)</i>	As at	
	December 31, 2021	December 31, 2020
Deposits with regulated financial institutions	\$ 59,450	\$ 139,957
Marketable securities	48,589	23,826
Loans held for sale	1,342	7,545
Stamped mortgages	45,633	10,013
Total liquid assets	\$ 155,014	\$ 181,341

The Bank's main sources of cash and operating liquidity are deposits and net interest income. The Bank's originated on-balance sheet mortgages, are primarily funded 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. However, the Bank is exposed, from time to time, to deposit dealer-imposed concentration limit restrictions. The risk has been proactively mitigated through a more diversified dealer network.

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 several 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. 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, construction and commercial loans to GIC deposits.

(in thousands of \$)

As at December 31, 2021

	0 - 3 Months	3 - 12 Months	1 to 3 Years	Over 3 Years	Total
Remaining contractual term					
Single-family residential mortgages	\$ 142,646	\$ 468,812	\$ 451,188	\$ 41,063	\$ 1,103,709
Construction and commercial loans	12,441	\$ 66,390	209,452	18,725	307,008
Deposits (GICs)	(181,512)	\$ -	(1,004,318)	(189,759)	(1,375,589)
Net maturity	\$ (26,425)	\$ 535,202	\$ (343,678)	\$ (129,971)	\$ 35,128

MARKET RISK

Market risk is adverse impact on the value of assets, liabilities, and capital from changes in market prices and rates, the correlations among them, and their levels of volatility. The Bank's risk management policies including the Market Risk & Liquidity Investment policy defines strategies and policies that are aligned with the Bank's risk appetite. The policy 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.

As of December 31, 2021, the Bank's investment risk is largely limited to its CMBs having a par value of \$22.3 million, and Provincial Bonds consisting of \$25.6 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.

Interest rate risk

Interest rate risk is adverse movements in interest rates in the banking book leading to lost earnings or capital. 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 can realize stable and predictable net interest margin ("NIM"), over specific time periods, despite fluctuations in interest rates. The Bank's risk management policies including the Market Risk & Liquidity Investment policy defines strategies and policies that are aligned with the Bank's risk appetite. In addition, the Bank performs stress-testing and sensitivity analysis with respect to interest rates and related factors.

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 was based on customer commitment rates rather than the interest rate at time of funding, thereby passing on the interest rate risk to the investors.

The table below details the results of sensitivity analysis of interest rate increases and decreases on the economic value on equity (EVE) during the 12-month period beginning on December 31, 2021. The model is based on several assumptions including asset prepayments and liquidation rates, asset funding probabilities and discount factors of implied rate curves. Actual results could vary from these assumptions should an actual rate change occur.

	As at December 31, 2021	
(in thousands of \$, except %)	Increase in interest rates	Decrease in interest rates
100 basis point parallel shift		
Impact on net interest income	\$ 2,650	\$ (1,759)
Impact on EVE	382	478
EVE as a % of shareholders' equity	0.18%	0.22%
200 basis point parallel shift		
Impact on net interest income	\$ 5,391	\$ (2,655)
Impact on EVE	990	2,480
EVE as a % of shareholders' equity	0.46%	1.14%

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 December 31, 2021, position of the Bank's assets, liabilities and equity by maturity and weighted average contractual rate.

December 31, 2021						
<i>(in thousands of \$, except %)</i>	Floating Rate	0 to 3 Months	4 Months to 1 Year	1 Year to 5 Years	Non Rate Sensitive	Total ¹
Assets						
Cash and restricted cash	\$ 63,418	\$ -	\$ -	\$ -	\$ -	\$ 63,418
Weighted Average Contractual Rate	0.42%	-	-	-	-	0.42%
Debt securities	-	-	-	48,589	-	48,589
Weighted Average Contractual Rate	-	-	-	2.57%	-	2.57%
Non-securitized mortgages						
- Purchased insured loans - HFS	-	-	-	1,342	-	1,342
Weighted Average Contractual Rate	-	-	-	1.99%	-	1.99%
Non-securitized mortgages						
- RFA Alternative	-	69,471	213,077	254,752	(843)	536,458
Weighted Average Contractual Rate	-	3.85%	3.70%	3.38%	-	3.57%
Non-securitized mortgages						
- Purchased uninsured loans	-	67,926	240,388	188,685	(1,111)	495,887
Weighted Average Contractual Rate	-	3.38%	3.23%	2.93%	-	3.14%
Non-securitized mortgages						
- Purchased insured loans	-	3,737	15,208	-	-	18,944
Weighted Average Contractual Rate	-	6.06%	6.94%	-	-	6.77%
Non-securitized mortgages						
- Construction loans	195,733	-	-	15,866	(2,670)	208,930
Weighted Average Contractual Rate	5.90%	-	-	3.90%	-	5.75%
Non-securitized mortgages						
- stamped mortgages	14,378	1,513	139	29,387	216	45,633
Weighted Average Contractual Rate	1.43%	2.81%	3.79%	2.14%	-	1.93%
Non-securitized mortgages						
- other	1,117	-	-	2,591	486	4,195
Weighted Average Contractual Rate	1.67%	-	-	3.31%	-	2.49%
Non-securitized mortgages						
- Commercial Loan	-	-	-	95,409	(596)	94,813
Weighted Average Contractual Rate	-	-	-	3.32%	-	3.34%
Other assets	-	-	-	-	91,000	91,000
Weighted Average Contractual Rate	-	-	-	-	-	-
Total assets	\$ 274,646	\$ 142,646	\$ 468,812	\$ 636,621	\$ 86,483	\$1,609,207
Weighted Average Contractual Rate	4.38%	3.67%	3.56%	3.03%	-	3.31%
Liabilities						
Cashable GICs ²	\$ -	\$ 44,795	\$ -	\$ -	\$ (42)	\$ 44,753
Weighted Average Contractual Rate	-	0.74%	-	-	-	0.74%
Non-cashable GICs	-	140,416	682,070	508,308	(3,336)	1,327,458
Weighted Average Contractual Rate	-	1.12%	1.30%	1.82%	-	1.48%
Other liabilities	-	-	-	-	72,195	72,195
Weighted Average Contractual Rate	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	164,800	164,800
Weighted Average Contractual Rate	-	-	-	-	-	-
Total liabilities and shareholders' equity	\$ -	\$ 185,211	\$ 682,070	\$ 508,308	\$ 233,617	\$1,609,207
Weighted Average Contractual Rate	-	1.02%	1.30%	1.82%	-	1.24%
Excess (deficiency) of assets over liabilities and shareholders' equity	\$ 274,645	\$ (42,565)	\$ (213,258)	\$ 128,313	\$ (147,135)	\$ -

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.

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. While aware of these constraints, the Bank takes proactive steps to mitigate its operational risk. Operational risks include the following:

<i>Transaction/ Process</i>	<i>Ineffective design, implementation or execution of a process or transaction. Includes incidents such as system failures, inaccurate data input/calculations, untimely service delivery, accounting or reporting errors, and inefficient or unscalable processes.</i>
<i>People</i>	<i>Inadequate capacity, capability and/or competency of human resources operating the business. Includes risks relating to employee retention, performance management, development, resourcing, and employee health & safety.</i>
<i>Conduct</i>	<i>Risk of inappropriate, unethical, or unlawful behaviour on the part of management or employees that could harm employees or customers, or abuse financial markets, potentially damaging the Bank's reputation. Includes conflicts of interest, inappropriate incentive/bonus schemes, harassment/discrimination, unfair pricing practices.</i>
<i>Internal/ External Fraud</i>	<i>Risk of loss through intentional unauthorized activities, misrepresentation of facts or withholding of information to secure an unlawful gain. Fraud can be initiated by one or more parties including employees, potential or existing clients, agents, suppliers or outsourcers, or other external parties.</i>
<i>Change Management</i>	<i>Risk arising from changes to products/services, processes, organizational structures, business partnerships, technologies etc.</i>
<i>Model</i>	<i>Inappropriate decisions from relying on inaccurate, unsound, or outdated financial models. Risk may be related to inappropriate model design/ development, flawed assumptions, inaccurate, outdated, or incomplete input data.</i>
<i>Information Governance</i>	<i>Reliance on data/information that is incomplete, outdated, inaccurate, invalid, untimely and/or inaccessible. This risk can impact the Bank's ability to make informed decisions and develop accurate reporting for management, regulators, and customers.</i>
<i>Technology</i>	<i>Risk arising from the use of technology that is outdated, untested/unproven, poorly integrated, or not adequate/suitable for the Bank's needs.</i>
<i>Information Security</i>	<i>Failure to protect information from unauthorized use, disruption, modification, or destruction or to protect the confidentiality of customer, employee, and corporate data</i>
<i>Vendor/ Third Party</i>	<i>Risk exposures to a business partner, vendor, supplier, or agent/broker from their failure to adequately perform the services contracted for.</i>
<i>Physical Security</i>	<i>Failure to protect people, property, and other assets from threats such as theft, vandalism, fire, natural disasters, and terrorism.</i>
<i>Business Continuity</i>	<i>Inability to continue business operations under adverse conditions that may arise from natural, technological, or man-made hazards (e.g., flood, earthquake, pandemic, electricity grid failures).</i>

The Bank ERM Framework includes strategies to manage operational risk, including avoidance, transfer, 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.

Key components of the Bank's ERM Framework include but are not limited to:

- risk and control self-assessments by individual business units
- risk assessment of new business initiatives
- risk monitoring and reporting including using Key Risk Indicators ("KRIs") and other risk criteria
- control testing and other independent assessments
- reporting and analysis of internal and external risk events, and the development of action plans with follow up for measurement of success, when required
- mitigation plans for known operational risks; e.g.: business continuity planning
- stress testing and scenario analysis
- risk assessment and due diligence regarding third-party service providers, both prior to engagement and as periodic follow-ups
- maintenance of appropriate corporate insurance coverage

With respect to the 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/Misrepresentation

As part of its normal operations as a mortgage lender, the Bank is exposed to an inherently higher 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 misrepresentation in mortgage documents can increase. This is particularly the case when income qualification rules are tightened within an environment of increasing home prices and increasing interest rates. As well, the Bank's mortgage lending operations are dependent on a network of RFA Approved mortgage brokers and agents, which results in inherent distance between the Bank and the Borrower.

The Bank has quality control, mortgage investigation and misrepresentation, and whistleblower 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 enhanced due diligence via its rigorous RFA Broker Approval process. However, 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 this is not detected by the Bank's controls. This could happen due to inherent limitations in internal controls, which are expected to provide reasonable, but not absolute assurance that misstatements due to fraud will be prevented or detected.

In the event the Bank suspects or identifies mortgage fraud or any other misrepresentation on the part of an RFA Approved mortgage broker, agent or Bank employee, this could have a material adverse effect on the Bank's financial position and results of operations.

REPUTATIONAL RISK

Reputational risk is the risk of negative publicity regarding business practices, whether factual or not, that may create a potential dollar at risk event. 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 the Bank's activities.

The Bank's risk management policies including the Reputation Risk policy defines strategies and policies that are aligned with the Bank's risk appetite. The policy sets out the principles and organization structures and processes related to managing reputational risk. Key components of reputational risk management include:

- mandating and ensuring compliance by all employees with the Bank's Code of Conduct and Ethical Behaviour
- risk management and internal control (through ERM framework)
- specific identification and prevention of reputational risk events (e.g. regulatory compliance)
- monitoring potential sources of reputational risk such as negative media, emerging risks, employee engagement and survey results, etc.
- incident management and reporting (includes a communication response plan)

REGULATORY AND LEGAL RISK

Regulatory & Legal Risk is the risk of non-compliance with laws, regulations, prescribed practices or ethical standards in the jurisdictions the Bank operates, and the risk of losses from improperly defined contracts. It is particularly significant in instances where non-compliance could negatively impact the Bank's reputation 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.

STRATEGIC AND BUSINESS RISK

Strategic and Business risk is the risk of loss associated with failure to identify appropriate strategies and business activities, to respond to changes in the internal or external business environment, or to implement selected strategies or business activities. As the Bank continues to grow its banking operations, its products and services compete with those offered by other banks and financial institutions, many of whom are strongly capitalized and hold significant market share. These institutions typically have other forms of lending or ancillary revenue (e.g., HELOCs, credit cards, loan servicing, etc.). Furthermore, the Bank's existing mortgage lending business depends on continuing to attract business from independent mortgage brokers who are not contractually obligated to do business with RFA, and who also do business with its competitors.

The Bank prepares an annual strategy for the business which is presented for approval to the Board of Directors. Strategic and Business risk for the Bank's individual business segments is managed and monitored by senior management through regular weekly meetings. The Board of Directors approves the Bank's plans and strategies at least annually, and reviews results against strategies with recommended action plan (as required) at least quarterly.

CAPITAL DISCLOSURE TEMPLATE

The Bank's regulatory capital information at December 31, 2021 is outlined in the table below. OSFI's Basel III guidance for non-DSIBs prescribes standardized row numbers when disclosing certain capital information to facilitate comparability across regulated entities.

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	118,907
3	Accumulated other comprehensive income (and other reserves)	540
6	Common Equity Tier 1 capital before regulatory adjustments	164,800
Common Equity Tier 1 capital: regulatory adjustments		
28	Total regulatory adjustments to Common Equity Tier 1	108
29	Common Equity Tier 1 capital (CET1)	164,908
29a	Common Equity Tier 1 capital (CET1) with transitional arrangements for ECL provisioning not applied	164,741
Additional Tier 1 capital: regulatory adjustments		
45	Tier 1 capital (T1 = CET1 + AT1)	164,908
45a	Tier 1 capital with transitional arrangements for ECL provisioning not applied	164,741
Tier 2 capital: regulatory adjustments		
57	Total regulatory adjustments to Tier 2 capital	
58	Tier 2 capital (T2)	1,065
59	Total capital (TC = T1 + T2)	165,973
59a	Total capital with transitional arrangements for ECL provisioning not applied	165,973
60	Total risk-weighted assets	
60a	Common Equity Tier 1 (CET1) Capital RWA	912,346
60b	Tier 1 Capital RWA	912,346
60c	Total Capital RWA	912,346
Capital Ratios		
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	18.08%
61a	Common Equity Tier 1 with transitional arrangements for ECL provisioning not applied	18.06%
62	Tier 1 (as percentage of risk-weighted assets)	18.08%
62a	Tier 1 with transitional arrangements for ECL provisioning not applied	18.06%
63	Total capital (as percentage of risk-weighted assets)	18.19%
63a	Total capital with transitional arrangements for ECL provisioning not applied	18.19%
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%

LEVERAGE RATIO TEMPLATE

The Bank's total balance sheet exposures, regulatory capital and leverage ratio are outlined in the table below. OSFI's Basel III guidance for non-Domestic Systemically Important Banks (non-DSIBs) prescribes standardized row numbers when disclosing certain capital information to facilitate comparability across regulated entities.

Item		Leverage Ratio Framework
On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	1,609,507
2	(Asset amounts deducted in determining Basel III "all-in" Tier 1 capital)	(59)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	1,609,448
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	161,726
18	(Adjustments for conversion to credit equivalent amounts)	(81,973)
19	Off-balance sheet items (sum of lines 17 and 18)	79,753
Capital and Total Exposures		
20	Tier 1 capital	164,908
20a	Tier 1 capital with transitional arrangements for ECL provisioning not applied	164,741
21	Total Exposures (sum of lines 3, 11, 16 and 19)	1,689,200
Leverage Ratios		
22	Basel III leverage ratio	9.76%
22a	Basel III leverage ratio with transitional arrangements for ECL provisioning not applied	9.75%