



RFA BANK OF CANADA

BASEL III PILLAR 3 DISCLOSURES

SEPTEMBER 30, 2025

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1. NATURE OF OPERATIONS

RFA Bank of Canada ("RFA Bank" or the "Bank") is a Canadian federally regulated Schedule I bank. 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 mortgages (1-4 units), Commercial Real Estate (CRE) loans (comprising commercial lending including multi-unit residential – 5+ units, retail, industrial and office space), and Construction loans (including Land Acquisition, Development and Construction). The address of its registered office is 145 King Street West, Suite 300, Toronto, ON, M5H 1J8.

2. 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"). RFA Bank is a Category 2 small and medium-sized deposit taking institution ("SMSB") for purposes of capital and liquidity requirements. 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"). Additional financial information is available on OSFI's website at <https://www.osfi-bsif.gc.ca/Eng/wt-ow/Pages/fd-df.aspx>. Full qualitative disclosures are also provided annually on the Q4 report.

3. 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 can be categorized into financial risks (including credit, market, liquidity and funding, and capital adequacy), and non-financial risks (including strategic, operational, reputational, and regulatory and legal). The Bank's risk management practices include risk governance, establishing a risk appetite and enterprise risk management framework, stress testing, risk assessments, controls, gap identification and remediation, monitoring and reporting. These risk practices are continually reviewed and enhanced.

Risk Governance

The directors of the Bank ("the Board") is responsible for providing strategic direction, guidance, and oversight across the Bank, including the establishing of the Bank's Enterprise Risk Management ("ERM") framework and risk appetite statements. The risk appetite statement reflects the aggregate level and type of risk that the Bank is willing to accept to achieve its business objectives. The Bank's ERM process starts with the prudent risk management tone set by the Board. This tone from the top, guides management and their risk committees, and other personnel. The ERM process is applied in strategy-setting and other activities across the Bank and is designed to identify potential events that may affect the Bank. The process helps manage risk to within the risk appetite, and to 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, assess, mitigate, manage and report on risk on a day-to-day basis, adhering to the established Residential and Commercial Mortgage Underwriting and risk appetite policies and supporting guidelines of the Bank. The first line is also referred to as operational management.
- Second line of defense - The risk management, compliance and finance functions represented by the Chief Risk Officer ("CRO"), Chief Compliance Officer, and Chief Financial Officer respectively, establish policy and provide direction, guidance, challenge, methodology, tools, independent monitoring, reporting 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 ("CEO"). The Board's Audit Committee assists the Board with its oversight of the Bank's financial reporting and internal audit functions.

The Bank's 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.

Risk Reporting

The ERM team provides monthly risk reports to the Senior Management Committee ("SMC") and/or its sub-committees and quarterly to the Board Enterprise Risk Management Committee ("ERMC") including the following information:

- Risk exposures against limits/thresholds, along with trends/direction of risks and significant risk positions,
- Limit violations and remedial action plans,
- Policy exceptions,
- Significant concentrations,
- Emerging risks,
- Significant risk events and actual/potential losses,
- Risk mitigation action plans and current status and,
- Status of risk management activities.

Roles and Responsibilities

The following roles and responsibilities have been established for managing risk across the Bank.

- Board of Directors, supported by their sub-committees
 - Review and approve the Bank's ERM framework and risk appetite statements,
 - Provide oversight of the risk management program ensuring that the processes in place to identify and manage risks are effective,

- Receive periodic risk reporting from the Bank on risk exposures and plans.
- CEO supported by the SMC and its sub-committees
 - Reviews and recommend ERM framework and risk appetite statements to the Board,
 - Reviews and approves risk management standards supporting Board-approved policies,
 - Oversees implementation of the risk management frameworks, policies, and standards to ensure effectiveness,
 - Promotes a strong risk culture through tone at the top, leadership, accountability, open and transparent communication and escalation of issues,
 - Ensures strategic objectives and plans align with the Bank's stated risk appetite and that the risks relating to strategic initiatives are understood and managed,
 - Receives regular reporting on enterprise-wide risk exposures and escalates to the Board risks exceeding the Bank's risk appetite.
- CRO supported by the ERM & Compliance Teams
 - Recommends ERM framework and risk appetite statements, policies and standards to the SMC and relevant sub committees,
 - Develops and implements risk management tools and methodologies and provides support to management for the identification, assessment, mitigation and monitoring of risks,
 - Provides independent challenge to management's risk management activities, including policy/standard development, risk assessment and reporting,
 - Monitors risk across the Bank and escalate significant risks or concerns or incidents of non-compliance to the CEO and the Board as appropriate,
 - Monitors changes in the business environment, including legal and regulatory requirements, and assesses impact on the Bank's risk exposures,
 - Provides timely reporting on enterprise-wide risk exposures to the SMC and the Board,
 - Provides risk management education, training, and advice.
- Other Oversight Functions (e.g., Finance and Human Resources)
 - Recommend policies and standards to the SMC for specific risks (e.g., HR – Code of Conduct, Finance – Capital Management),
 - Monitor and provide reporting on these risks and escalate significant risks or concerns or incidents of non-compliance to the CRO and CEO,
 - Provide education, training, and advice on these risks.
- Management (Risk Owners)
 - Assumes ownership of the risks in their business
 - Manage day-to-day operations of their business and ensure that internal controls are designed and operating effectively,
 - Identify, assess, mitigate, measure, monitor, and report on risks in their areas of responsibility and adhere to the Bank's established risk appetite, policies, and standards,
 - Promote a risk management culture and establish effective internal controls within their areas,

- Complete risk mitigation action plans within proposed timelines and regularly reports status of action plans,
- Escalates risks or concerns to the CRO in a timely manner.
- Internal Audit
 - Provide independent assurance on the effectiveness of governance, risk management and control processes including compliance with the ERM framework, related policies and practices, and regulatory requirements.

Enterprise Risk Appetite Statement

The Bank will:

- Only take risks that fit its business strategy, that we understand and can manage, and that do not result in significant volatility in earnings or expose the Bank to any significant single loss event,
- Maintain adequate capital and a conservative liquidity profile that meets or exceeds regulatory requirements.
- Avoid excessive concentrations of risk.
- Safeguard the Bank's reputation 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 ongoing oversight.
- Maintain financial and operational resilience for severe yet plausible events.
- Ensure sound management of operational and regulatory compliance risks and maintain a strong risk culture.
- Acquire strategic investments only after conducting appropriate due diligence that considers risk, opportunity costs and effect on the Bank's capital ratio.
- The Bank does not have an appetite for undisclosed and unapproved breaches.

4. 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 Bank has a Board-approved Capital Management Policy ("CMP") and Capital Contingency Plan ("CCP") that are aligned with the Bank's ERM framework 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 CCP sets out the actions the Bank would consider remediating for any current or prospective deficiencies in its capital position. The CMP and CCP are 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 rising interest rates or housing downturn). 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 calculates its capital ratios and regulatory capital based on the capital adequacy requirements issued by OSFI. The bank must maintain minimum levels of capital to meet minimum risk-based capital ratios. These are based on *Basel III: A global regulatory framework for more resilient banks and banking systems – A Revised Framework* (“Basel III”) reforms. For a breakdown of the different elements of the Bank’s capital, please refer to financial information available on OSFI’s website at <https://www.osfi-bsif.gc.ca/Eng/wt-ow/Pages/fd-df.aspx>.

The Bank must maintain minimum levels of capital to meet minimum risk-based capital ratios based on Basel III reforms. The Bank’s CMP addresses regulatory capital requirements including 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 Measures are the Bank’s all-in Tier 1 capital, and the Bank’s Total 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, 2025.

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 average annual adjusted gross income, and a component based on commitments for on-balance sheet lending. The Bank follows the Basel III Standardized Approach to calculate credit risk, and the Simplified Standardized Approach for operational risk.

Key regulatory metrics for the Bank and the components of the leverage ratio are shown in the tables 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.

5. KEY METRICS

		Q3-2025	Q2-2025	Q1-2025	Q4-2024	Q3-2024
		T	T-1	T-2	T-3	T-4
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	233,664	228,945	224,843	220,616	216,529
2	Tier 1	233,664	228,945	224,843	220,616	216,529
3	Total capital	242,589	237,332	229,706	225,600	221,100
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	1,211,222	1,209,005	1,201,916	1,206,311	1,178,318
4a	Total risk-weighted assets (pre-floor)	1,211,222	1,209,005	1,201,916	1,206,311	1,178,318
	Risk-based capital ratios as a percentage of RWA					
5	CET1 ratio (%)	19.29%	18.94%	18.71%	18.29%	18.38%
5a	CET1 ratio (%) (pre-floor ratio)	19.29%	18.94%	18.71%	18.29%	18.38%
6	Tier 1 ratio (%)	19.29%	18.94%	18.71%	18.29%	18.38%
6a	Tier 1 ratio (%) (pre-floor ratio)	19.29%	18.94%	18.71%	18.29%	18.38%
7	Total capital ratio (%)	20.03%	19.63%	19.11%	18.70%	18.76%
7a	Total capital ratio (%) (pre-floor ratio)	20.03%	19.63%	19.11%	18.70%	18.76%
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	-	-	-	-	-
10	Bank G-SIB and/or D-SIB additional requirements (%) [Not applicable for SMSBs]					
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.50%	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	12.29%	11.94%	11.71%	11.29%	11.38%
	Basel III Leverage ratio					
13	Total Basel III leverage ratio exposure measure	2,540,328	2,539,829	2,510,100	2,446,363	2,362,011
14	Basel III leverage ratio (row 2 / row 13)	9.20%	9.01%	8.96%	9.02%	9.17%

6. LEVERAGE RATIO

		Q3 2025	Q2 2025
		T	T-1
On-balance sheet exposures			
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	2,540,101	2,539,409
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework (IFRS)		
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)		
4	(Asset amounts deducted in determining Tier 1 capital)	(187)	(200)
5	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 to 4)	2,539,914	2,539,209
Derivative exposures			
6	Replacement cost associated with all derivative transactions	51	52
7	Add-on amounts for potential future exposure associated with all derivative transactions	20	24
8	(Exempted central counterparty-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 6 to 10)	71	76
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	858	1,369
18	(Adjustments for conversion to credit equivalent amounts)	(515)	(821)
19	Off-balance sheet items (sum of lines 17 and 18)	343	548
Capital and total exposures			
20	Tier 1 capital	233,664	228,945
21	Total Exposures (sum of lines 5, 11, 16 and 19)	2,540,328	2,539,833
Leverage ratio			
22	Basel III leverage ratio	9.20%	9.01%