RFA
BANK OF CANADA

# BASEL III PILLAR 3 DISCLOSURES

## DECEMBER 31, 2020

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## 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"), 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 develop vaccine candidates and slow the spread of COVID-19 by curtailing large public and private gatherings, limiting travel, encouraging employees to work from home, closing businesses deemed non-essential, imposing curfews and requiring individuals to stay home and self-isolate.

Although these efforts have helped slow the spread of COVID-19, the number of active cases at home and abroad have continued to increase. In Q4 2020, Canada experienced a second wave that further strained hospital capacity and resulted in new restrictions and lockdowns.

On December 9, 2020, Health Canada approved the country's first COVID-19 vaccine developed by Pfizer-BioNTech after deeming it safe for use and effective. Two weeks later, the federal agency approved the Moderna COVID-19 vaccine for administration to Canadians. In December, the Public Health Agency of Canada released its COVID-19 Immunization Plan with a goal of vaccinating as many Canadians as possible while prioritizing high risk populations.

Despite these positive developments, uncertainty remains as to the execution of Canada's Immunization Plan and recent emergence of COVID-19 variants, both of which could affect the duration and severity of the pandemic and its impact on the economy.

### *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")***

CEWS 1.0

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. 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.

CEWS 2.0

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 were 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. A "safe harbour" rule was also introduced that allowed the wage subsidy to be determined as the greater of the amount calculated under CEWS 1.0 and CEWS 2.0 for the months of July and August if the revenue decline was 30% or more.

On October 14, a proposal was made to continue the CEWS until June 2021, including possible changes to the rates and top-up calculation. It was proposed that the base subsidy rate for September 27 to October 24 continue to apply from October 25 to December 19, 2020. As such, the maximum base subsidy rate would be set at 40 per cent for this period, and the maximum top-up subsidy rate would remain at 25 per cent. To make the top-up subsidy more responsive to sudden changes in revenue, the revenue-decline test for the base subsidy and the top-up subsidy would be harmonized from September 27 onward. Instead of using the current three-month revenue-decline test for the top-up subsidy, both the base and top-up would be determined by the change in an eligible employer's monthly revenues, year-over-year, for either the current or previous calendar month. This means an employer with a 70 per cent or greater revenue loss in a period would be eligible for a 65 per cent wage subsidy. For employers using the alternative revenue-decline test (announced on April 8, 2020), both the base subsidy and the top-up subsidy would be determined by the change in an eligible employer's monthly revenues relative to the average of its January 2020 and February 2020 revenues. To ensure that the change in the revenue-decline test does not lead to a less generous wage subsidy, the wage subsidy program would include a "safe harbour" rule applicable from September 27 to December 19, 2020. This rule would entitle an eligible employer to a top-up subsidy rate that is no less than it would have received under the three-month revenue-decline test.

On November 2, Bill C-9 was introduced to implement the changes to the Canada Emergency Wage Subsidy that were announced on October 14. The Bill, which amends the Income Tax Act, became law after receiving Royal Assent on November 19, 2020.

By December 31, 2020, the Bank had submitted applications to the Canada Revenue Agency ("CRA") which resulted in the receipt of the wage subsidy for certain qualification periods.

***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 or default 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, 2020, the Bank's unrestricted cash position remained strong with a cash and cash equivalents balance of $140 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 December 31, 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 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. These risks include credit, operational, liquidity, interest rate, investment, capital adequacy, operational, reputational, compliance and strategic risk, and many of these cannot be directly controlled by the Bank. The Bank's strategic pillar of prudent risk management is a key component of its long-term sustainable profitable success.

***Risk Governance***

The Board of Directors is responsible for establishing the overall strategy and objectives of the Bank and its overall risk appetite. The risk appetite framework addresses the limits of the risks that the Bank assumes, and the Bank's conduct with respect to its stakeholders. The Bank's strategies and the management of its risks are supported by the enterprise risk management ("ERM") framework which includes policies, management standards, and guidelines for each Bank risk category (e.g., credit risk). ERM involves the Board of Directors, the committees of the Board, senior management, and other employees to identify, measure, manage and monitor risks. 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 own 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. 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 and 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. The Board's Audit Committee assists the Board with its oversight of the Bank's financial reporting and internal audit functions.

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

***Enterprise Risk Appetite Statement***

The Bank will conduct itself with full transparency, honesty, moral clarity, and ethically, and will only deal with reputable business partners after conducting due diligence in respect of each new relationship.

The Bank will not take risks that it does not understand, that are expected to result in significant earnings volatility or that will expose it to any significant single loss event.

The Bank will maintain a dynamic and robust ERM framework, with adequate controls & measures supported by a strong governance framework, based on the Three Lines of Defense model that is tailored for the Bank's size, complexity, and levels of risks.

As a key pillar of its strategy, the Bank will promote an integrated risk management culture and awareness It will require Board approval for policies and the integrated Key Performance Indicators (KPI) and Key Risk Indicators (KRI), along with the required Board reports to disclose results and action plans in a timely manner, including measurement of successes of the applicable management action plans through follow up.

The Bank will ensure second (finance, compliance and risk management) and third (internal audit) lines of defense, which are respectively and adequately staffed to monitor and report on risk levels to Senior Management and the Board in a timely manner.

The Bank will optimize profitability while complying with our risk appetite and applicable jurisdiction laws and regulations in the industry.

A focus on efficiency of operations through the development of improved processes supported by better systems and technology. An outsourcing approach to specific operations will be leveraged, benefitting from industry best practices and subject matter expertise, at a lower cost, higher scalability, and compliant to the Bank risk management policies and culture.

The Bank operates as a socially and community engaged corporate citizen.

## 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, 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") 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 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

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 $79 thousand increase to its CET1 capital as of December 31, 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 December 31, 2020.

The Bank's capital structure is shown below as of December 31, 2020, the Bank had 39,514,043 shares outstanding.

**Basel III Regulatory Capital**

| | December 31, 2020 All-In Basis | December 31, 2019 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 | **112,248** | 110,723 |
| Accumulated other comprehensive income | **1,116** | 475 |
| Eligible Stage 1 and Stage 2 allowances | **79** | - |
| Less: Regulatory adjustments to CET 1 (**Note 1**) | **(562)** | (1,398) |
| Total CET 1 capital | **$ 158,234** | $ 155,153 |
| Additional Tier 1 capital | **-** | - |
| Total Tier 1 capital | **$ 158,234** | $ 155,153 |
| Total Tier 2 capital (eligible Stage 1 and Stage 2 allowances) | **853** | 779 |
| Total regulatory capital | **$ 159,087** | $ 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**

| | December 31, 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 | $143,608 | 20.00% | $ 28,722 | $138,677 | 20.00% | $ 27,735 |
| Securities | 23,826 | 0.00% | - | 22,313 | 0.00% | - |
| Insured residential mortgages | 67,840 | 2.09% | 1,418 | 182,157 | 2.00% | 3,641 |
| Uninsured residential mortgages | 564,876 | 35.37% | 199,791 | 508,891 | 35.53% | 180,801 |
| Construction mortgages | 65,035 | 100.00% | 65,035 | 23,516 | 100.00% | 23,516 |
| Other assets | 71,332 | 98.74% | 70,435 | 60,543 | 93.21% | 56,429 |
| Total assets subject to risk rating | $936,517 | 39.02% | $ 365,401 | $936,097 | 31.21% | $ 292,122 |
| Intangible assets | 329 | - | - | 1,090 | - | - |
| Allowance for credit losses | (1,132) | 17.59% | (199) | (947) | 17.73% | (168) |
| Total assets | $935,714 | | $ 365,202 | $936,240 | | $ 291,954 |
| Off-balance sheet exposure (loan commitments) | | | 27,106 | | | 297 |
| Total assets and off-balance sheet exposure | $935,714 | | $ 392,308 | $936,240 | | $ 292,251 |
| Operational risk (average three-year annual gross income) | | | 86,730 | | | 112,243 |
| Total risk-weighted assets | $935,714 | | $ 479,038 | $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**

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| | **All-In Basis** | **All-In Basis** |
| Regulated capital to risk-weighted assets | | |
| CET 1 ratio | **33.03%** | 38.36% |
| Tier 1 capital ratio | **33.03%** | 38.36% |
| Total regulatory capital ratio | **33.21%** | 38.55% |
| Leverage ratio | **16.44%** | 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. 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 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 year, 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 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 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 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 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 RFA Alternative portfolio.

In Q4 2019, the Bank expanded its uninsured lending to include participation in syndicated construction loans. As of December 31, 2020, the portfolio consisted of two construction loans, four land development loans and five inventory loans, the latter of which relates to largely completed multi-unit condominium apartment buildings. 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. 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.

In Q1 2020, the Bank began purchasing prime insured open mortgages. Although insured against credit losses, the Bank mitigates its credit risk in a manner like that described above for non-prime uninsured mortgages.

### *Managing and monitoring credit risk*

The Bank manages credit risk through its Risk Committee ("RC"), Construction Credit Committee ("CCC") and Business Lines Committee ("BLC"). The ERM Committee meets quarterly while the BLC and RC 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. Adjustments to the Bank's lending policies are recommended for approval at these meetings and presented to the Board and ERMC for final approval.

The Bank mitigates its credit risk on the mortgages that it underwrites by operating within detailed Board-approved lending and 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, and property location. Underwriting includes application of a due diligence process to each mortgage 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 exposure of the Bank's financial assets is their carrying values as reflected on the statement of financial position plus undrawn commitments primarily related to construction loans. The Bank had $54 million of undrawn construction commitments at the end of the current year for which $67 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 Nova Scotia (18%), Alberta (15%), British Columbia (12%) and Ontario (42%) with the eight largest borrowers representing 52% of the outstanding balance as of the end of the current year. The construction loans outstanding as of December 31, 2020 are for properties in Alberta (24%), British Columbia (17%) and Ontario (59%).

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 residential business in Quebec however a small portion of its purchased insured mortgages are 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 December 31, 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 | **90,500** | **-** | **-** | **-** | **-** | **90,500** |
| Purchases / Buybacks | **260,757** | **339,605** | **93,350** | **-** | **2,493** | **696,205** |
| Sales / Derecognition | **(13,310)** | **(205,704)** | **-** | **(8,976)** | **-** | **(227,990)** |
| Net repayments and other [1] | **(281,963)** | **(238,829)** | **(51,831)** | **-** | **(2,702)** | **(575,325)** |
| **December 31, 2020** | **$ 564,875** | **$ 67,841** | **$ 65,035** | **$ -** | **$ -** | **$ 697,751** |
| Allowance for credit losses | **(958)** | **(14)** | **(160)** | | | **(1,132)** |
| **Net at December 31, 2020** | **$ 563,917** | **$ 67,827** | **$ 64,875** | **$ -** | **$ -** | **$ 696,619** |
| **Credit loss %** | **(0.17%)** | **(0.02%)** | **(0.25%)** | **0.00%** | **0.00%** | **(0.16%)** |

*[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.

**December 31, 2020**

| *(in thousands of $)* | Alberta | British Columbia | Ontario | All Other Provinces | Total |
|---|---|---|---|---|---|
| Held for sale | **$ 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 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%** |

**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.

| | | | | | 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%** |

| | | | | | 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 $)*** | | | | | December 31, 2020 |
|---|---|---|---|---|---|
| | **Within 1 year** | **1 - 3 years** | **3 - 5 years** | **5 - 10 years** | **Total** |
| RFA Alternative mortgages | **$ 274,621** | **$ 45,933** | **$ 806** | **$ -** | **$ 321,360** |
| Prime uninsured mortgages | **1,527** | **2,208** | **1,154** | **-** | **4,889** |
| Alt-A Eclipse 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** |
| Constructon loans | **21,006** | **44,639** | **-** | **-** | **65,645** |
| Bridge loans | **-** | **-** | **-** | **-** | **-** |
| Total mortgages and loans | **$ 497,737** | **$ 187,660** | **$ 13,052** | **$ -** | **$ 698,449** |

| | | | | | December 31, 2019 |
|---|---|---|---|---|---|
| | **Within 1 year** | **1 - 3 years** | **3 - 5 years** | **5 - 10 years** | **Total** |
| RFA Alternative 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 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 is 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 the allowance for credit losses for its uninsured 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 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 and other key macroeconomic variables. In response to a second wave, the Bank has adopted a more pessimistic outlook of the economy which has been reflected in the scenario 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 December 31, 2020 and December 31, 2019.

| ***(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 Eclipse 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** |

| ***(in thousands of $)*** | | | | **December 31, 2019** |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| RFA Alternative 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 December 31, 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 to scenarios, probability weights, and forward-looking information;
- 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 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 |

| *(in thousands of $)* | Three months ended September 30, 2020 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| ***Residential Mortgages*** | | | | |
| Balance at the beginning of the period | $ 644 | $ 252 | $ 298 | $ 1,194 |
| Mortgages originated | 217 | - | - | 217 |
| Transfers from Stage 1 | (31) | 14 | 17 | - |
| Transfers from Stage 2 | 139 | (139) | - | - |
| Transfers from Stage 3 | 36 | - | (36) | - |
| Mortgages paid or derecognized * | (38) | (8) | (22) | (68) |
| Remeasurement | (231) | 61 | (25) | (195) |
| Balance at the end of the period | $ 736 | $ 180 | $ 232 | $ 1,148 |
| ***Construction 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 |

** 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 the loan in full. 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 $)*** | | | | | | **December 31, 2020** |
|---|---|---|---|---|---|---|
| | **Current** | **1 - 30 days** | **31 - 60 days** | **61 - 90 days** | **> 90 days** | **Total** |
| RFA Alternative mortgages | **$ 308,054** | **$ 7,966** | **$ 1,610** | **$ 2,526** | **$ 1,204** | **$ 321,360** |
| Prime uninsured mortgages | **4,889** | **-** | **-** | **-** | **-** | **4,889** |
| Alt-A Eclipse 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** |
| Constructon loans | **65,645** | **-** | **-** | **-** | **-** | **65,645** |
| Bridge loans | **-** | **-** | **-** | **-** | **-** | **-** |
| Total mortgages and loans | **$ 679,421** | **$ 12,766** | **$ 2,102** | **$ 2,526** | **$ 1,634** | **$ 698,449** |

| | | | | | | **December 31, 2019** |
|---|---|---|---|---|---|---|
| | **Current** | **1 - 30 days** | **31 - 60 days** | **61 - 90 days** | **> 90 days** | **Total** |
| RFA Alternative 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 December 31, 2020, 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, 2020.

As of December 31, 2020, the Bank had specifically identified seven RFA Alternative loans totaling $3.2 million as impaired, and individually assessed (Stage 3) allowance for credit losses of $185 thousand was recorded for these loans. As of December 31, 2020, 96.8% 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 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, for 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 daily through monitoring and measuring 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.

COVID-19 did not 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:

| | As at | |
|---|---|---|
| ***(in thousands of $)*** | **December 31, 2020** | **December 31, 2019** |
| Deposits with regulated financial institutions | **$ 139,957** | $ 133,281 |
| Debt securities | **$ 23,826** | 22,959 |
| Loans held for sale | **$ 7,545** | 72,998 |
| Stamped mortgages | **$ 10,013** | 11,204 |
| Total liquid assets | **$ 181,341** | $ 240,442 |

The Bank's main sources of cash and operating liquidity are deposits and net interest income. 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 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. The Bank is, however, exposed from time to time to deposit dealer-imposed concentration limit restrictions. The risk has been proactively mitigated through a more diverse 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 and construction loans to GIC deposits.

| *(in thousands of $)* | | | | | As at December 31, 2020 |
|---|---|---|---|---|---|
| | 0 - 3 Months | 3 - 12 Months | 1 to 3 Years | Over 3 Years | Total |
| **Remaining contractual term** | | | | | |
| Single-family residential mortgages | $ 126,526 | $ 329,217 | $ 143,021 | $ 13,052 | $ 611,816 |
| Construction loans | 3,029 | $ 17,978 | 44,638 | - | 65,645 |
| Deposits (GICs) | 93,277 | $ 256,721 | 280,186 | 55,546 | 685,730 |
| Net maturity | $ 36,278 | $ 90,474 | $ (92,527) | $ (42,494) | $ (8,269) |

## 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 and 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, 2020, the Bank's investment risk is largely limited to its CMBs having a par value of $22.5 million and fair value of $23.8 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.

### *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 and 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 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.

The table below details the results of sensitivity analysis of interest rate increases and decreases during the 12-month period beginning on December 31, 2020. The model is based on several assumptions, and actual results could vary from these assumptions should an actual rate change occur.

| | As at December 31, 2020 | |
|---|---|---|
| ***(in thousands of $, except %)*** | **Increase in interest rates** | **Decrease in interest rates** |
| 100 basis point parallel shift | | |
| Impact on net interest income | **$ 2,304** | **$ (2,360)** |
| Impact on EVE | **3,294** | **(3,653)** |
| EVE as a % of shareholders' equity | **2.22%** | **(2.46%)** |
| 200 basis point parallel shift | | |
| Impact on net interest income | **$ 4,700** | **$ (4,722)** |
| Impact on EVE | **6,647** | **(7,386)** |
| EVE as a % of shareholders' equity | **4.48%** | **(4.97%)** |

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, 2020 position of the Bank's assets, liabilities and equity by maturity and weighted average contractual rate.

December 31, 2020

| (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] |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and restricted cash | $ 143,608 | $ - | $ - | $ - | $ - | $ 143,608 |
| *Weighted Average Contractual Rate* | 0.54% | - | - | - | - | 0.54% |
| Debt securities | - | - | - | 23,826 | - | 23,826 |
| *Weighted Average Contractual Rate* | - | - | - | 2.48% | - | 2.48% |
| Non-securitized mortgages - Purchased insured loans - HFS | 2,055 | - | - | 5,389 | 101 | 7,545 |
| *Weighted Average Contractual Rate* | 2.04% | - | - | 1.68% | - | 1.75% |
| Securitized mortgages held on-balance sheet | 12,852 | - | 8,136 | - | 61 | 21,049 |
| *Weighted Average Contractual Rate* | 2.07% | - | 2.49% | - | - | 2.23% |
| Non-securitized mortgages - RFA Alternative | - | 80,970 | 193,650 | 46,740 | (952) | 320,408 |
| *Weighted Average Contractual Rate* | - | 5.21% | 5.17% | 4.56% | - | 5.11% |
| Non-securitized mortgages - Purchased uninsured loans | - | 34,961 | 119,387 | 84,529 | (253) | 238,624 |
| *Weighted Average Contractual Rate* | - | 3.78% | 4.00% | 3.82% | - | 3.91% |
| Non-securitized mortgages - Purchased insured loans | - | 9,898 | 9,977 | - | - | 19,875 |
| *Weighted Average Contractual Rate* | - | 6.74% | 6.79% | - | - | 6.77% |
| Non-securitized mortgages - Construction loans | 65,645 | - | - | - | (770) | 64,875 |
| *Weighted Average Contractual Rate* | 5.49% | - | - | - | - | 5.55% |
| Non-securitized mortgages - stamped mortgages | 4,872 | - | 2,799 | 2,342 | - | 10,013 |
| *Weighted Average Contractual Rate* | 1.56% | - | 2.52% | 2.91% | - | 2.14% |
| Non-securitized mortgages - other | 1,975 | 430 | 3,404 | 8,438 | (17) | 14,230 |
| *Weighted Average Contractual Rate* | 1.73% | 2.69% | 2.95% | 3.33% | - | 3.00% |
| Other assets | - | - | - | - | 71,661 | 71,661 |
| *Weighted Average Contractual Rate* | - | - | - | - | - | - |
| **Total assets** | $ 231,007 | $ 126,259 | $ 337,353 | $ 171,264 | $ 69,831 | $ 935,714 |
| *Weighted Average Contractual Rate* | 2.08% | 4.93% | 4.70% | 3.39% | - | 3.49% |
| **Liabilities** | | | | | | |
| Cashable GICs [2] | $ - | $ 11,429 | $ - | $ - | $ (22) | $ 11,407 |
| *Weighted Average Contractual Rate* | - | 0.58% | - | - | - | 0.58% |
| Non-cashable GICs | - | 81,848 | 256,821 | 335,633 | (2,053) | 672,249 |
| *Weighted Average Contractual Rate* | - | 2.58% | 1.75% | 2.21% | - | 2.09% |
| Securitization liabilities | 12,795 | 452 | 8,061 | - | 1 | 21,309 |
| *Weighted Average Contractual Rate* | 0.93% | 1.89% | 1.89% | - | - | 1.31% |
| Other liabilities | - | - | - | - | 72,032 | 72,032 |
| *Weighted Average Contractual Rate* | - | - | - | - | - | - |
| Shareholders' equity | - | - | - | - | 158,717 | 158,717 |
| *Weighted Average Contractual Rate* | - | - | - | - | - | - |
| **Total liabilities and shareholders' equity** | $ 12,795 | $ 93,729 | $ 264,882 | $ 335,633 | $ 228,675 | $ 935,714 |
| *Weighted Average Contractual Rate* | 0.93% | 2.33% | 1.76% | 2.21% | - | 1.54% |
| **Excess (deficiency) of assets over liabilities and shareholders' equity** | $ 218,212 | $ 32,530 | $ 72,471 | $ (164,369) | $ (158,844) | $ - |

[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:

| | |
|---|---|
| *Regulatory and Legal* | *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* |
| *Internal Environment and Fraud* | *External fraud, Internal Fraud, Ethics and Code of Conduct* |
| *Monitoring and Oversight* | *Improper execution of monitoring system and information flow for monitoring* |
| *Employment Practices* | *Inability to maintain appropriate human resources due to poor employment practices or inadequate workplace safety* |
| *Information Governance* | *Information that is inaccurate, unavailable when needed, not understood such that decision-making is compromise, or is revealed to improper parties* |
| *IT Security / Cyber Risk* | *Maintaining systems and technology to ensure IT security* |
| *Market Conduct* | *Improper or inadequate clients, products and business practice* |
| *Vendor/ Third Party* | *Third-party actions increasing the overall risk to the Bank (in any of the risk categories)* |
| *Operational Resiliency (Business Continuity and change management)* | *Inability to continue business operations under abnormal operating conditions (physical, environmental, pandemic, market) or inability to manage internal business changes* |
| *Transaction/ Process* | *Inefficient process or process that does not meet objectives [includes financial and general process transactions]* |

The Bank ERM Framework 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.

Key components of the Bank's ERM Framework include:

- risk and control self-assessments by individual business units
- risk assessment of new business initiatives
- risk monitoring through the use of Key Risk Indicators ("KRIs")
- reporting and analysis of internal and external risk events, and the development of action plans 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 insurance coverage

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 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 fraud such as misrepresentation in mortgage documents can increase. This is particularly the case when income qualification rules are tightened within an environment of higher 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. In evaluating mortgage eligibility, the Bank relies on information provided by potential borrowers through their mortgage application driven by the mortgage brokers and agents.

The Bank has quality control, fraud management, 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 only 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 a broker or 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 true or not, that may create a potential material 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
- monitoring potential sources of reputational risk such as negative media, emerging risks, employee engagement and survey results, etc.
- incident management (includes a communication response plan)

## REGULATORY AND LEGAL RISK

Regulatory and 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. 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 strategies at least annually, and reviews results against strategies at least quarterly.

**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 | 112,248 |
| 3 | Accumulated other comprehensive income (and other reserves) | 1,116 |
| 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** | 158,717 |
| | **Common Equity Tier 1 capital: regulatory adjustments** | |
| 28 | Total regulatory adjustments to Common Equity Tier 1 | (483) |
| 29 | **Common Equity Tier 1 capital (CET1)** | 158,234 |
| 29a | **Common Equity Tier 1 capital (CET1) with transitional arrangements for ECL provisioning not applied** | 158,155 |
| | **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)** | 158,234 |
| 45a | **Tier 1 capital with transitional arrangements for ECL provisioning not applied** | 158,155 |
| | **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 | 853 |
| 51 | **Tier 2 capital before regulatory adjustments** | 853 |
| | **Tier 2 capital: regulatory adjustments** | |
| 57 | **Total regulatory adjustments to Tier 2 capital** | |
| 58 | **Tier 2 capital (T2)** | 853 |
| 59 | **Total capital (TC = T1 + T2)** | 159,087 |
| 59a | **Total capital with transitional arrangements for ECL provisioning not applied** | 159,087 |
| 60 | **Total risk-weighted assets** | |
| 60a | **Common Equity Tier 1 (CET1) Capital RWA** | 479,038 |
| 60b | **Tier 1 Capital RWA** | 479,038 |
| 60c | **Total Capital RWA** | 479,038 |
| | **Capital Ratios** | |
| 61 | Common Equity Tier 1 (as percentage of risk-weighted assets) | 33.03% |
| 61a | Common Equity Tier 1 with transitional arrangements for ECL provisioning not applied | 33.02% |
| 62 | Tier 1 (as percentage of risk-weighted assets) | 33.03% |
| 62a | Tier 1 with transitional arrangements for ECL provisioning not applied | 33.02% |
| 63 | Total capital (as percentage of risk-weighted assets) | 33.21% |
| 63a | Total capital with transitional arrangements for ECL provisioning not applied | 33.21% |
| | **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) | 935,714 |
| 2 | (Asset amounts deducted in determining Basel III "all-in" Tier 1 capital) | (562) |
| 3 | **Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)** | **935,152** |
| | 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 | 54,211 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (27,105) |
| 19 | **Off-balance sheet items (sum of lines 17 and 18)** | **27,106** |
| | Capital and Total Exposures | |
| 20 | **Tier 1 capital** | **158,234** |
| 20a | **Tier 1 capital with transitional arrangements for ECL provisioning not applied** | **158,155** |
| 21 | **Total Exposures (sum of lines 3, 11, 16 and 19)** | **962,258** |
| | Leverage Ratios | |
| 22 | **Basel III leverage ratio** | **16.44%** |
| 22a | **Basel III leverage ratio with transitional arrangements for ECL provisioning not applied** | **16.44%** |