BASEL III PILLAR 3 DISCLOSURES

DECEMBER 31, 2022

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RFA BANK OF CANADA
BASEL III PILLAR 3 DISCLOSURES
DECEMBER 31, 2022

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 mortgage (1-4 units), construction lending and commercial lending (including multi-units residential – 5+ units). The address of its registered office is 1 Yonge Street, Suite 2401, Toronto, Ontario, M5E 1E5.

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").

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 (such as credit, market, liquidity and funding, and capital adequacy), and non-financial risks (such as strategic, operational, reputational, and regulatory and legal). The Bank's risk management practices include risk governance, the risk appetite and enterprise risk management framework, risk assessment, controls, gap identification and remediation, monitoring and reporting. These risk practices are continually reviewed and enhanced.

Risk Governance

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

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

- *First line of defense* - Employees within each business line owns the risk, each area will identify, accept, mitigate, and manage risk on a day-to-day basis, adhering to the established Residential Mortgage Underwriting and risk appetite policies and supporting guidelines 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 with the supporting practices and compliance of the first and second lines of defense. The Bank's Chief Internal Auditor reports directly to the Audit Committee and administratively to the Chief Executive Officer.

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

Enterprise Risk Appetite Statement

The Bank will:

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

CAPITAL MANAGEMENT

As a regulated financial institution that is subject to the capital requirements of its regulator, OSFI, the Bank must continually monitor and assess its capital adequacy under both expected and stressed conditions. An adequate capital reserve provides the Bank with a buffer for reasonably foreseeable losses, ensures that the Bank may absorb such losses, and maintains the stability of the business. Capital adequacy can be affected by changes in the Bank's financial performance, its business plans, or regulatory requirements. The economic impact of COVID-19 has the potential to negatively affect the Bank's capital reserve, although as of December 31, 2022, this has not occurred. OSFI's guidelines on adjusted capital treatment related to COVID-19 are discussed in this section.

The Bank has a Board-approved Capital Management Policy ("CMP") that is aligned with the Bank's ERM 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 CMP is reviewed at least annually and more often if required by events or changing circumstances.

Capital adequacy risk is the risk that the Bank holds insufficient capital to meet regulatory requirements and any other requirements necessary to manage the organization as a going concern, including during periods of severe but plausible stress (such as COVID-19). The Bank manages its capital risk through both the CMP and the utilization of an Internal Capital Adequacy Assessment Process ("ICAAP") in accordance with OSFI Guideline E-19. The Bank's risk identification and assessment process for capital adequacy risk includes:

- Escalation of current and emerging risks to the Asset, Liability and Capital Committee ("ALCCO") and the ERM Committee of the Board, and review of actual results against plan and revised forecasts at least monthly;
- Use of stress testing and scenario analysis to assess the potential impact of severe but plausible stress;
- Integration of business, financial and capital planning processes to assess adequacy of the capital to meet business and financial plans;
- Consideration of capital implications for new business initiatives; and,
- Capital contingency planning.

Following its October 18, 2019, acquisition of SCGI, RFA increased the Bank's capital by $50 million. In addition, RFA has committed to cause its investors (the "Investors") to provide an additional $25 million in readily available stand-by capital to the Bank. Subject to the Investors' discretion and the achievement of certain performance targets, it is RFA's view that the Investors may be interested in injecting further equity capital into the Bank over the next five years to support balance sheet growth. To date, there has been $11 million of additional 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, and will be eliminated for fiscal 2023. For the Bank, this arrangement resulted in a $413 thousand increase to its CET1 capital as of December 31, 2022.

The Bank must maintain minimum levels of capital to meet minimum risk-based capital ratios based on Basel II and Basel III. The Bank's Capital Management Policy addresses two regulatory capital requirements: the Leverage Ratio and the Risk-Based Capital Ratios.

The Bank's capital structure is shown in the table below as of December 31, 2022, the Bank had 53,127,000 shares outstanding.

	December 31, 2022	December 31, 2021
	All-In Basis	**All-In Basis**
(in thousands of $)		
Common Equity Tier 1 capital (CET 1)		
Capital stock	**$ 53,127**	**$ 42,127**
Contributed surplus	**3,226**	**3,226**
Retained earnings	**128,598**	**118,907**
Accumulated other comprehensive income	**(2,577)**	**540**
Eligible Stage 1 and Stage 2 allowances	**413**	**167**
Less: Regulatory adjustments to CET 1 (**Note 1**)	**(3)**	**(59)**
Total CET 1 capital	**$ 182,784**	**$ 164,908**
Additional Tier 1 capital	**-**	**-**
Total Tier 1 capital	**$ 182,784**	**$ 164,908**
Total Tier 2 capital (eligible Stage 1 and Stage 2 allowances)	**2,603**	**1,065**
Total regulatory capital	**$ 185,387**	**$ 165,973**

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

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, 2022.

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

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

	December 31 2022			December 31, 2021		
	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	$ 60,977	20.00%	$ 12,195	$ 63,418	20.00%	$ 12,684
Debt Securities	45,993	0.00%	-	49,016	0.00%	-
Equity Securities	9,689	100.00%	9,689	(427)	0.00%	-
Insured residential mortgages	71,692	3.27%	2,345	66,606	3.45%	2,298
Uninsured residential mortgages	1,345,885	35.14%	472,903	1,036,338	35.01%	362,812
Construction mortgages	279,246	100.00%	279,246	209,732	100.00%	209,732
Commercial mortgages	87,727	100.00%	87,727	95,060	100.00%	95,060
Other assets	101,732	89.66%	91,213	91,000	87.64%	79,756
Total assets subject to risk rating	$ 2,002,941	47.70%	$ 955,318	$ 1,610,742	47.33%	$ 762,341
Allowance for credit losses	(3,068)	1.69%	(52)	(1,235)	0.23%	(3)
Total assets	$ 1,999,872		$ 955,266	$ 1,609,507		$ 762,338
Off-balance sheet exposure (loan commitments)			91,020			79,699
Total assets and off-balance sheet exposure	$ 1,999,872		$ 1,046,286	$ 1,609,507		$ 842,038
Operational risk (average three-year annual gross income)			58,847			70,309
Total risk-weighted assets	$ 1,999,872		$ 1,105,133	$ 1,609,507		$ 912,346

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

	December 31, 2022	December 31, 2021
Total risk-weighted assets	$ 1,105,133	$ 912,346
Regulated capital to risk-weighted assets		
CET 1 ratio	16.54%	18.08%
Tier 1 capital ratio	16.54%	18.08%
Total regulatory capital ratio	16.78%	18.19%
Leverage ratio	8.74%	9.76%
National regulatory minimum		
CET 1 ratio	7.00%	7.00%
Tier 1 capital ratio	8.50%	8.50%
Total regulatory capital ratio	10.50%	10.50%
Leverage ratio	3.00%	3.00%

CREDIT RISK

Credit risk is the risk of financial loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations. The Bank's credit risk is mainly associated with its residential mortgage and construction and commercial lending activities and underlying risk of default on the part of the borrower. The Bank's exposure to credit risk varies across its suite of portfolios.

Liquidity portfolio

The Bank maintains a stock of unencumbered high-quality liquid assets ("HQLA") that is appropriate to its cash flow profile and that can be readily converted into cash without incurring undue loss. Assets used in a repurchase transaction or that are pledged for any reason are considered encumbered and are not included in the stock of liquid assets when calculating the Bank's liquidity profile. Liquid assets, other than cash and overnight term deposits, are subject to appropriate valuation reductions if sold quickly or before maturity. The liquidity portfolio must be of sufficient size to allow the Bank to operate in accordance with its stated liquidity risk appetite. The Bank's credit risk on liquid assets, the majority of which are cash, cash equivalents and insured mortgages, is minimal. All counterparties with respect to cash and cash equivalents are Schedule I Canadian Banks with high credit ratings assigned by international rating agencies.

Sale of mortgages

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

Beginning in Q2 2018, the Bank began originating prime uninsurable mortgages intended for sale to investors. Prime uninsurable mortgages are mortgages that approximate the credit quality of prime insurable mortgages and are compliant with OSFI's *Guideline B-20 Residential Mortgage Underwriting Practices and Procedures ("Guideline B-20")*, but do not qualify for mortgage default insurance due to one or more credit risk criteria. The Bank bears the credit risk for any loans it may have to reacquire from investors if such loans are later determined to be ineligible. As of December 31, 2022, no loans had been returned to the Bank.

Since Q4 2019, the Bank has largely ceased selling prime insurable and uninsurable residential mortgages to investors. As such, the Bank's sale activity has been limited to the securitization of 10-year insured multi-unit residential mortgages in the National Housing Act Mortgage-Backed Securities ("NHA MBS") program and sale of NHA MBS pools into the Canada Mortgage Bond ("CMB") program. A majority of the underlying mortgage loans are closed to prepayment risk; however, during Q3 2022 the Bank securitized some mortgage loans that are open to prepayment. For these mortgages, the Bank has an arrangement with a third party for a pre-payment swap to mitigate the pre-payment risk. In addition, the Bank enters into third party arrangements to manage its seller swaps, thereby mitigating its interest rate risk. As a result, the Bank transfers control over the mortgage loans, and does not retain any significant risks and rewards associated with ownership. They are recognized on the Bank's balance sheet only to the extent of the Bank's continuing involvement in the mortgages, which is limited to a retained interest and the obligations and rights associated with servicing the mortgages. With respect to credit risk, the Bank is obligated to make a timely payment guarantee for amounts owing to CMB investors in the event a loan goes into default or becomes delinquent. As the loans under this program are insured, any funding by the Bank would be recoverable through an insurance claim leaving the residual credit risk to the Bank very low.

On-balance sheet lending

In Q2 2017, the Bank diversified its business activities to include uninsured residential mortgages. This occurred with the launch of the Bank's Alt-A lending program, which was relaunched with a new name in 2020. The program consists of non-prime uninsured residential mortgages which have 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. During the quarter, the Bank has not incurred any losses on the new single-family originated portfolio.

In Q4 2019, the Bank expanded its uninsured lending to include construction loans consisting of land development loans, inventory loans, and residential construction loans. The Bank mitigates credit risk by performing extensive due diligence procedures and by limiting the exposure to each counterparty and project, and by ensuring that all loans have a well-defined exit strategy.

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

Purchases

The Bank purchases non-prime uninsured residential mortgages from a Third Party approved lender. The credit quality of these mortgages is consistent with the Bank's residential originated loans. The Bank mitigates its credit risk by reviewing the original underwriting documents to ensure that the credit quality is aligned with the Bank's risk appetite. Additionally, the purchase agreement allows the Bank to sell back, within a specified time frame, residential mortgages that do not conform with the Bank's credit standards. To date the Bank has not incurred any losses on these purchases. In addition to the non-prime uninsured mortgage purchases, the Bank also purchases prime insured open mortgages from the same Third Party.

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

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

Managing and monitoring credit risk

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

The Bank mitigates its credit risk on the mortgages that it underwrites by operating within detailed Board-approved underwriting policies and management underwriting guidelines and procedures, that are in compliance with OSFI's B-20 Guideline. These policies and procedures take into consideration such key factors as credit quality, LTV ratio, down payment, debt service ratio, income sustainability, property value assessment and location. Underwriting includes application of a due diligence process to each mortgage underwritten, with oversight from an experienced management team. All mortgage applications are evaluated and assessed against risk criteria, and additional quality control procedures are performed on a significant percentage of mortgage files prior to funding. Post-funding reviews are also conducted by the second line of defense to provide continuous feedback and monitoring of mortgage credit quality.

The Bank's mortgage origination, underwriting and asset quality processes and controls are designed to provide a high level of assurance that the mortgages it originates comply with the Bank policies, underwriting requirements and mitigates misrepresentations or errors that would increase credit risk beyond the Bank's tolerance. However, there is no absolute assurance that an employee, approved broker or borrower will not inadvertently or deliberately violate the Bank's underwriting or other policies or misrepresent information in the mortgage application. With reasonable and prudent controls in place, these risks can be mitigated, however not fully eliminated. Therefore, the practices and processes continue to be evaluated and improved as required.

The Bank reviews the credit performance and credit quality of its mortgage portfolios on an ongoing basis and performs stress testing that includes scenarios based on adverse economic events. These scenarios include combinations of increasing unemployment, increasing interest rates and a decline in real-estate values, as well as specific operational and reputational stress tests. Generally, mortgage defaults are correlated to increases in unemployment rates (job losses), and in a local economic downturn the Bank would expect an increase in mortgage defaults and losses on uninsured mortgages associated with declining real estate values.

Credit risk exposure and concentration

The maximum credit exposure of the Bank's financial assets are their carrying values as reflected on the statement of financial position plus undrawn commitments primarily related to commercial and construction loans. The Bank had $63 million of undrawn construction and commercial commitments as at December 31, 2022, for which $154 thousand was set aside as an allowance for credit losses.

The Bank's uninsured mortgages that are held on-balance sheet are concentrated in the provinces of Ontario and British Columbia. The Bank's NHA insured mortgages for multi-unit residential loans are concentrated in the provinces of Ontario (31%), British Columbia (23%).

Aside from this, the Bank does not have any significant concentrations of credit risk within any geographic region or group of customers. The Bank does not currently originate residential business in Quebec, however a small portion of its purchased insured open mortgages are located in that province.

The table below summarizes the Bank's outstanding mortgage balance net of deferred unamortized cost and allowance for credit losses, as of December 31, 2022.

(in thousands of $)	Total Residential Uninsured	Total Residential Insured	Construction Loans	Commercial Loans	All Balance Sheet Loans
January 1, 2022	**$ 1,037,806**	**$ 65,904**	**$ 211,599**	**$ 95,409**	**$ 1,410,718**
Originations	**435,294**	**-**	**-**	**-**	**435,294**
Purchases / Buybacks	**246,179**	**148,417**	**164,761**	**39,101**	**598,458**
Sales / Derecognition	**(15,454)**	**(77,489)**	**-**	**-**	**(92,943)**
Net repayments and other [1]	**(357,940)**	**(65,140)**	**(97,114)**	**(46,783)**	**(566,977)**
December 31, 2022	**$ 1,345,885**	**$ 71,692**	**$ 279,246**	**$ 87,727**	**$ 1,784,550**
Allowance for credit losses	**(2,168)**	**-**	**(686)**	**(215)**	**(3,068)**
Net at December 31, 2022	**$ 1,343,717**	**$ 71,692**	**$ 278,560**	**$ 87,512**	**$ 1,781,482**
Gross loans excluding deferred costs and fees	**$ 1,347,058**	**$ 71,071**	**$ 281,006**	**$ 88,003**	**$ 1,787,138**
Allowance for credit loss as a % of gross loans excluding deferred costs and fees	**(0.16%)**	**0.00%**	**(0.24%)**	**(0.24%)**	**(0.17%)**

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

December 31, 2022

(in thousands of $)	Alberta	British Columbia	Ontario	All Other Provinces	Total
Held for sale	**$ 6,459**	**$ 2,835**	**$ 6,629**	**$ 1,673**	**$ 17,596**
Held to collect					
Residential insured	**$ 12,131**	**$ 11,275**	**$ 24,702**	**$ 5,988**	**$ 54,096**
Residential uninsured	**145,414**	**216,031**	**941,095**	**43,345**	**1,345,885**
Construction and Commercial loans	**89,854**	**99,467**	**169,675**	**7,977**	**366,973**
Total held to collect	**$ 247,399**	**$ 326,773**	**$ 1,135,472**	**$ 57,310**	**$ 1,766,954**
As a % of portfolio	**14.00%**	**18.49%**	**64.26%**	**3.24%**	**100.00%**
All gross loans	**$ 253,858**	**$ 329,608**	**$ 1,142,101**	**$ 58,983**	**$ 1,784,550**
As a % of portfolio	**14.23%**	**18.47%**	**63.99%**	**3.31%**	**100.00%**

December 31, 2021

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

The table below shows the LTV ratios of the residential mortgage loans that the Bank holds on-balance sheet.

December 31, 2022	Alberta	British Columbia	Ontario	All Other Provinces	Total
Held for sale	**90.08%**	**87.22%**	**77.91%**	**92.49%**	**85.26%**
Held to collect					
Residential insured	**80.33%**	**85.84%**	**80.79%**	**88.73%**	**82.62%**
Residential uninsured	**75.86%**	**68.29%**	**67.35%**	**74.83%**	**68.66%**
Total held to collect	**76.21%**	**69.16%**	**67.69%**	**76.52%**	**69.20%**
All gross loans	**76.75%**	**69.38%**	**67.76%**	**77.04%**	**69.40%**

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

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

(in thousands of $) **December 31, 2022**	**Within 1 year**	**1 - 3 years**	**3 - 5 years**	**5 - 10 years**	**Total**
RFA Alternative mortgages	**$ 494,600**	**$ 306,671**	**$ -**	**$ -**	**$ 801,271**
Prime uninsured mortgages	**881**	**1,093**	**754**	**-**	**2,728**
Alt-A third party mortgages	**414,043**	**129,015**	**-**	**-**	**543,059**
Non-securitized insured prime mortgages	**2,256**	**8,238**	**7,102**	**-**	**17,596**
Purchased insured mortgages	**9,149**	**-**	**-**	**-**	**9,149**
Stamped insured mortgages	**3,226**	**694**	**40,405**	**-**	**44,325**
Construction loans	**183,949**	**89,886**	**7,171**	**-**	**281,006**
Commercial loans	**27,388**	**60,615**	**-**	**-**	**88,003**
Total mortgages and loans	**$ 1,135,493**	**$ 596,211**	**$ 55,433**	**$ -**	**$ 1,787,138**

(in thousands of $) **December 31, 2021**	**Within 1 year**	**1 - 3 years**	**3 - 5 years**	**5 - 10 years**	**Total**
RFA Alternative mortgages	**$ 281,788**	**$ 254,742**	**$ 771**	**$ -**	**$ 537,300**
Prime uninsured mortgages	**-**	**2,026**	**1,482**	**-**	**3,508**
Alt-A third party mortgages	**308,313**	**188,685**	**-**	**-**	**496,998**
Non-securitized insured prime mortgages	**-**	**201**	**1,342**	**-**	**1,542**
Purchased insured mortgages	**18,944**	**-**	**-**	**-**	**18,944**
Stamped insured mortgages	**1,652**	**6,296**	**37,469**	**-**	**45,417**
Construction loans	**78,831**	**132,768**	**-**	**-**	**211,600**
Commercial loans	**-**	**76,684**	**18,725**	**-**	**95,409**
Total mortgages and loans	**$ 689,529**	**$ 661,401**	**$ 59,788**	**$ -**	**$ 1,410,718**

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; and,
- Stage 3 – includes financial instruments that are credit impaired or in default. The lifetime allowance is recognized.

The Bank’s credit provision incorporates its originated residential portfolio, its purchased mortgages, and its commercial and construction loans, as well as outstanding commitments on these portfolios. The Bank has developed a PD Model for calculating the allowance for credit losses for its uninsured residential 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.

While the macro economic forecasts considered in the ECL models reflect the current economic uncertainties related to heightened inflation, rising interest rates and declining home prices, the continued COVID-19 impacts such as supply chain issues from China, as well as impact from the Russia/Ukraine war could significantly impact the assumptions made. As a result, the Bank continues to adopt a relatively more pessimistic outlook of the economy, which has been reflected in the scenario weights. The impact of COVID-19 on the Bank has not been as severe as initially expected and losses have been negligible to date.

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, 2022, and December 31, 2021.

(in thousands of $)				**December 31, 2022**
	Stage 1	**Stage 2**	**Stage 3**	**Total**
RFA Alternative mortgages	**$ 772,031**	**$ 26,781**	**$ 1,654**	**$ 800,466**
Prime uninsured mortgages	**2,728**	**-**	**-**	**2,728**
Alt-A third party mortgages	**542,462**	**229**	**-**	**542,691**
Non-securitized insured prime mortgages	**17,596**	**-**	**-**	**17,596**
Stamped insured mortgages	**44,947**	**-**	**-**	**44,947**
Purchased insured mortgages	**9,149**	**-**	**-**	**9,149**
Construction loans	**279,246**	**-**	**-**	**279,246**
Commercial loans	**87,727**	**-**	**-**	**87,727**
Total	**$ 1,755,886**	**$ 27,010**	**$ 1,654**	**$ 1,784,550**

(in thousands of $)				**December 31, 2021**
	Stage 1	**Stage 2**	**Stage 3**	**Total**
RFA Alternative mortgages	**$ 533,256**	**$ 3,422**	**$ 144**	**$ 536,822**
Prime uninsured mortgages	**3,508**	**-**	**-**	**3,508**
Alt-A third party mortgages	**496,008**	**-**	**-**	**496,008**
Non-securitized insured prime mortgages	**2,029**	**-**	**-**	**2,029**
Stamped insured mortgages	**45,633**	**-**	**-**	**45,633**
Purchased insured mortgages	**18,944**	**-**	**-**	**18,944**
Construction loans	**209,732**	**-**	**-**	**209,732**
Commercial loans	**95,060**	**-**	**-**	**95,060**
Total	**$ 1,404,170**	**$ 3,422**	**$ 144**	**$ 1,407,736**

The following table provide a reconciliation of the opening to closing ECL balance for the Bank's portfolio for the quarter ending December 31, 2022. The reconciling items shown below comprise the following components:

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

(in thousands of $)	**Three months ended December 31, 2022**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Residential Mortgages				
Balance at the beginning of the period	**$ 1,866**	**$ 33**	**$ 12**	**$ 1,911**
Mortgages originated	**155**	**90**	**-**	**245**
Transfers from Stage 1	**(787)**	**674**	**114**	**-**
Transfers from Stage 2	**1**	**(1)**	**-**	**-**
Transfers from Stage 3	**-**	**-**	**-**	**-**
Mortgages paid or derecognized	**(117)**	**-**	**(32)**	**(149)**
Remeasurement	**219**	**(18)**	**(42)**	**159**
Balance at the end of the period	**$ 1,337**	**$ 778**	**$ 52**	**$ 2,167**
Construction mortgages loans				
Balance at the beginning of the period	**$ 627**	**$ -**	**$ -**	**$ 627**
Mortgages originated	**100**	**-**	**-**	**100**
Mortgages paid or derecognized	**(41)**	**-**	**-**	**(41)**
Balance at the end of the period	**$ 686**	**$ -**	**$ -**	**$ 686**
Commercial mortgages loans				
Balance at the beginning of the period	**$ 293**	**$ -**	**$ -**	**$ 293**
Mortgages originated	**35**	**-**	**-**	**35**
Mortgages paid or derecognized	**(113)**	**-**	**-**	**(113)**
Balance at the end of the period	**$ 215**	**$ -**	**$ -**	**$ 215**
Total Allowance for credit losses	**$ 2,239**	**$ 778**	**$ 52**	**$ 3,068**

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 residential mortgages are in a first lien position. In addition to having the underlying real property as collateral, insured mortgages provide additional protection in the event the proceeds from realizing the collateral are insufficient to repay the loan in full.

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

(in thousands of $)						**December 31, 2022**
	Current	**1 - 30 days**	**31 - 60 days**	**61 - 90 days**	**> 90 days**	**Total**
RFA Alternative mortgages	**$ 787,698**	**$ 9,918**	**$ 2,001**	**$ 411**	**$ 1,243**	**$ 801,271**
Prime uninsured mortgages	**2,728**	**-**	**-**	**-**	**-**	**2,728**
Alt-A third party mortgages	**536,179**	**6,651**	**229**	**-**	**-**	**543,059**
Non-securitized insured prime mortgages	**17,289**	**307**	**-**	**-**	**-**	**17,596**
Purchased insured mortgages	**8,004**	**723**	**422**	**-**	**-**	**9,149**
Stamped insured mortgages	**44,325**	**-**	**-**	**-**	**-**	**44,325**
Construction loans	**262,506**	**-**	**18,500**	**-**	**-**	**281,006**
Commercial loans	**88,003**	**-**	**-**	**-**	**-**	**88,003**
Total mortgages and loans	**$1,746,732**	**$ 17,600**	**$ 21,152**	**$ 411**	**$ 1,243**	**$1,787,138**

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

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, 2022.

As of December 31, 2022, the Bank had specifically identified four alternative loans totaling $1,654 thousand as impaired, and individually assessed (Stage 3) allowance for credit losses of $52 thousand was recorded for these loans. As of December 31, 2022, 98.3% of the performing RFA Alternative mortgages were current, compared to 97.5% as of December 31, 2021.

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. Effective management of liquidity risk requires that the Bank have sufficient liquid assets available, as needed, to fund new mortgages and to pay cash obligations such as deposit maturities and interest, accounts payable and accrued liabilities, and any other commitments and obligations.

The Bank's risk management policies including the Liquidity and Funding Management Policy are designed to ensure that cash balances and other high-quality liquid assets are a) sufficient to meet all cash outflows, in both ordinary and stressed conditions, and b) in compliance with regulatory requirements such as the Liquidity Adequacy Requirements and OSFI Guideline B-6.

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

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

The Bank's liquid assets are as shown below:

(in thousands of $)	**As at** December 31, 2022	December 31, 2021
Deposits with regulated financial institutions	**$ 59,696**	$ 59,450
Marketable securities	**$ 45,993**	48,589
Loans held for sale	**$ 17,596**	1,342
Stamped mortgages	**$ 44,947**	45,633
Total liquid assets	**$ 168,232**	**$ 155,014**

The Bank's main sources of cash and operating liquidity are deposits and net interest income. The Bank's originated on-balance sheet mortgages, are primarily funded by the Bank's deposit taking activity.

The Bank's deposits are currently sourced through the deposit broker network and are CDIC-insured fixed-term GICs. The Bank's access to deposits depends upon several factors including access to third-party deposit platforms, interest rates offered by competing lenders, general economic conditions, regulatory requirements, and the securities markets in general. The broker network is expected to have more than enough liquidity to meet the Bank's funding needs for the next few years. However, the Bank is exposed, from time to time, to deposit dealer-imposed concentration limit restrictions. The risk has been proactively mitigated through a more diversified dealer network.

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

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

(in thousands of $)					**As at Dec 31, 2022**
	0 - 3 Months	**3 - 12 Months**	**1 to 3 Years**	**Over 3 Years**	**Total**
Remaining contractual term					
Residential mortgages	**$ 173,301**	**$ 751,278**	**$ 445,288**	**$ 48,261**	**$ 1,418,128**
Construction and commercial loans	**70,861**	**140,476**	**150,501**	**7,171**	**369,009**
Deposits (GICs)	**(145,023)**	**(853,354)**	**(425,808)**	**(325,968)**	**(1,750,153)**
Net maturity	**$ 99,139**	**$ 38,400**	**$ 169,981**	**$ (270,536)**	**$ 36,984**

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 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, 2022, the Bank's investment risk is largely limited to its CMBs having a par value of $22.3 million, and Provincial Bonds consisting of $26.3 million. More complex investing activities are expected to occur as deposit taking and uninsured lending operations expand, although the timing of such activities is uncertain.

Interest rate risk

Interest rate risk is adverse movements in interest rates in the banking book leading to lost earnings or capital. The Bank is exposed to interest rate risk due to: 1) differences between the maturity dates of interest-rate sensitive assets and liabilities, and 2) floating rate assets that are funded by fixed rate 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 policy defines strategies and policies that are aligned with the Bank's risk appetite. In addition, the Bank performs stress-testing and sensitivity

analysis with respect to interest rates and related factors.

Historically, the Bank was not exposed to material levels of interest rate risk arising from prime insurable or prime uninsurable mortgage commitments, because the purchase price for mortgages sold to investors was based on customer commitment rates rather than the interest rate at time of funding, thereby passing on the interest rate risk to the investors.

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

	As at December 31, 2022	
(in thousands of $, except %)	**Increase in interest rates**	**Decrease in interest rates**
100 basis point parallel shift		
Impact on net interest income	**$ 4,754**	**$ (4,995)**
Impact on EVE	**5,608**	**(6,051)**
EVE as a % of shareholders' equity	**2.44%**	**(2.63%)**
200 basis point parallel shift		
Impact on net interest income	**$ 9,508**	**$ (10,003)**
Impact on EVE	**11,129**	**(12,192)**
EVE as a % of shareholders' equity	**4.84%**	**(5.30%)**

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, 2022, position of the Bank's assets, liabilities and equity by maturity and weighted average contractual rate.

						December 31, 2022
(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	$ 60,977	$ -	$ -	$ -	$ -	$ 60,977
Weighted Average Contractual Rate	4.46%	-	-	-	-	4.46%
Debt securities	-	-	22,143	23,850	-	45,993
Weighted Average Contractual Rate	-	-	2.42%	2.64%	-	2.53%
Equity securities	-	-	-	-	9,689	9,689
Weighted Average Contractual Rate	-	-	-	-	-	-
Non-securitized mortgages - Purchased insured loans - HFS	6,809	1,375	880	8,532	-	17,596
Weighted Average Contractual Rate	5.53%	2.96%	5.85%	5.03%	-	5.10%
Non-securitized mortgages - RFA Alternative	-	79,444	415,157	306,671	(2,554)	798,718
Weighted Average Contractual Rate	-	3.43%	5.09%	4.32%	-	4.65%
Non-securitized mortgages - Purchased uninsured loans	-	91,348	323,118	128,593	(756)	542,303
Weighted Average Contractual Rate	-	3.25%	4.01%	4.38%	-	3.98%
Non-securitized mortgages - Purchased insured loans	-	875	8,274	-	-	9,149
Weighted Average Contractual Rate	-	6.89%	7.66%	-	-	7.59%
Non-securitized mortgages - Construction loans	281,006	-	-	-	(2,445)	278,561
Weighted Average Contractual Rate	9.19%	-	-	-	-	9.19%
Non-securitized mortgages - stamped mortgages	17,567	261	531	25,967	621	44,947
Weighted Average Contractual Rate	5.37%	3.59%	3.56%	2.04%	-	3.32%
Non-securitized mortgages - other	754	-	881	1,093	(32)	2,696
Weighted Average Contractual Rate	5.20%	-	3.74%	3.63%	-	4.15%
Non-securitized mortgages - Commercial Loan	80,002	-	-	8,000	(490)	87,512
Weighted Average Contractual Rate	8.52%	-	-	3.55%	-	8.11%
Other assets	-	-	-	-	101,644	101,644
Weighted Average Contractual Rate	-	-	-	-	-	-
Total assets	$ 447,115	$ 173,303	$ 770,984	$ 502,706	$ 105,677	$1,999,785
Weighted Average Contractual Rate	8.21%	3.35%	4.59%	4.14%	-	4.94%
Liabilities						
Cashable GICs [2]	$ -	$ 13,410	$ -	$ -	$ (28)	$ 13,382
Weighted Average Contractual Rate	-	3.32%	-	-	-	3.33%
Non-cashable GICs	-	131,613	853,354	751,777	(4,448)	1,732,296
Weighted Average Contractual Rate	-	1.83%	3.37%	3.39%	-	3.27%
Other liabilities	-	-	-	-	71,733	71,733
Weighted Average Contractual Rate	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	182,374	182,374
Weighted Average Contractual Rate	-	-	-	-	-	-
Total liabilities and shareholders' equity	$ -	$ 145,023	$ 853,354	$ 751,777	$ 249,631	$1,999,785
Weighted Average Contractual Rate	-	1.97%	3.37%	3.39%	-	2.86%
Excess (deficiency) of assets over liabilities and shareholders' equity	$ 447,115	$ 28,280	$ (82,370)	$ (249,071)	$ (143,954)	$ -

[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:

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

The Bank ERM Framework includes strategies to manage operational risk, including avoidance, transfer, acceptance, and mitigation by controls. The Bank also employs a risk and compliance information system that facilitates the application of enhanced operational risk management techniques.

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

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

Mortgage fraud risk/Misrepresentation

As part of its normal operations as a mortgage lender, the Bank is exposed to an inherently higher level of fraud risk through the mortgage origination and underwriting processes. As mortgage underwriting and mortgage insurance qualification requirements become more stringent, either as a result of changes in regulatory requirements, or through changes in general industry practice, the inherent risk of mortgage misrepresentation in mortgage documents can increase. This is particularly the case when income qualification rules are tightened within an environment of rising interest rates and moderating but relatively high home prices. As well, the Bank's mortgage lending operations are dependent on a network of RFA Approved mortgage brokers and agents, which results in inherent distance between the Bank and the Borrower.

The Bank has quality control, mortgage investigation and misrepresentation, and whistleblower practices in place that are designed to mitigate mortgage fraud risk, by preventing and detecting misrepresentations of borrower information. These include enhanced documentation requirements for higher risk borrowers and enhanced due diligence via its rigorous RFA Broker Approval process. However, the Bank's financial position and results of operations could be negatively impacted if information is intentionally misleading or does not fairly represent an applicant's financial position, and this is not detected by the Bank's controls. This could happen due to inherent limitations in internal controls, which are expected to provide reasonable, but not absolute assurance that misstatements due to fraud will be prevented or detected.

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

REPUTATIONAL RISK

Reputational risk is the risk of negative publicity regarding business practices, whether factual or not, that may create a potential dollar at risk event. This could result in a decline in the Bank's earnings, economic value, capital, brand, liquidity, or customer base. Reputational risk is pervasive through all the Bank's activities.

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

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

REGULATORY AND LEGAL RISK

Regulatory & Legal Risk is the risk of non-compliance with laws, regulations, prescribed practices or ethical standards in the jurisdictions the Bank operates, and the risk of losses from improperly defined contracts. It is particularly significant in instances where non-compliance could negatively impact the Bank's reputation or soundness. Compliance risk is managed primarily by the Bank's Chief Compliance Officer and Chief Anti-Money Laundering Officer, with assistance from other senior management.

STRATEGIC AND BUSINESS RISK

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

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

CAPITAL DISCLOSURE TEMPLATE

The Bank's regulatory capital information at December 31, 2022 is outlined in the table below. OSFI's Basel III guidance for non-DSIBs prescribes standardized row numbers when disclosing certain capital information to facilitate comparability across regulated entities.

	Regulatory Capital and Ratios	All-in
	Common Equity Tier 1 capital: instruments and reserves	
	non-joint stock companies) plus related stock surplus	56,353
2	Retained earnings	128,598
3	Accumulated other comprehensive income (and other reserves)	(2,577)
6	**Common Equity Tier 1 capital before regulatory adjustments**	182,374
	Common Equity Tier 1 capital: regulatory adjustments	
28	Total regulatory adjustments to Common Equity Tier 1	411
29	**Common Equity Tier 1 capital (CET1)**	182,784
29a	**not applied**	182,371
	Additional Tier 1 capital: regulatory adjustments	
45	**Tier 1 capital (T1 = CET1 + AT1)**	182,784
45a	**Tier 1 capital with transitional arrangements for ECL provisioning not applied**	182,371
	Tier 2 capital: instruments and allowances	
50	Collective allowances	2,603
51	**Tier 2 capital before regulatory adjustments**	2,603
	Tier 2 capital: regulatory adjustments	
58	**Tier 2 capital (T2)**	2,603
59	**Total capital (TC = T1 + T2)**	185,387
59a	**Total capital with transitional arrangements for ECL provisioning not applied**	185,387
60a	**Common Equity Tier 1 (CET1) Capital RWA**	1,105,133
60b	**Tier 1 Capital RWA**	1,105,133
60c	**Total Capital RWA**	1,105,133
	Capital Ratios	
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	16.54%
61a	Common Equity Tier 1 with transitional arrangements for ECL provisioning not applied	16.50%
62	Tier 1 (as percentage of risk-weighted assets)	16.54%
62a	Tier 1 with transitional arrangements for ECL provisioning not applied	16.50%
63	Total capital (as percentage of risk-weighted assets)	16.78%
63a	Total capital with transitional arrangements for ECL provisioning not applied	16.78%
	OSFI all-in target	
69	Common Equity Tier 1 capital all-in target ratio	7.00%
70	Tier 1 capital all-in target ratio	8.50%
71	Total capital all-in target ratio	10.50%

LEVERAGE RATIO TEMPLATE

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

	Item	Leverage Ratio Framework
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	1,999,872
2	(Asset amounts deducted in determining Basel III "all-in" Tier 1 capital)	(3)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**1,999,869**
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	182,072
18	(Adjustments for conversion to credit equivalent amounts)	(91,052)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**91,020**
	Capital and Total Exposures	
20	**Tier 1 capital**	**182,784**
20a	**Tier 1 capital with transitional arrangements for ECL provisioning not applied**	**182,371**
21	**Total Exposures (sum of lines 3, 11, 16 and 19)**	**2,090,889**
	Leverage Ratios	
22	**Basel III leverage ratio**	**8.74%**
22a	**Basel III leverage ratio with transitional arrangements for ECL provisioning not applied**	**8.72%**