



BANK OF CANADA

BASEL III PILLAR 3 DISCLOSURES

DECEMBER 31, 2023

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**RFA BANK OF CANADA
BASEL III PILLAR 3 DISCLOSURES
DECEMBER 31, 2023**

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), Commercial Real Estate (CRE) loans (comprising commercial lending including multi-unit residential – 5+ units, retail, industrial and office space), Construction loans (including Land Acquisition, Development and Construction). 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"). RFA Bank is a Category 2 small and medium-sized deposit taking institution ("SMSB") for purposes of capital and liquidity requirements. The amounts presented are based on the Bank's annual and interim financial statements, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional financial information is available on OSFI's website at <https://www.osfi-bsif.gc.ca/Eng/wt-ow/Pages/fd-df.aspx>.

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 own the risk, each area will identify, accept, mitigate, and manage risk on a day-to-day basis, adhering to the established Residential and Commercial Mortgage Underwriting and risk appetite policies and supporting guidelines of the Bank. 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 risk profile is measured against the Board-approved risk appetite and reported to the Board of Directors at least quarterly. Board approved policies are reviewed at least annually and updated as required.

Risk Reporting

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

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

Roles and Responsibilities

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

- Board of Directors, supported by their sub-committees
 - Review and approve the Bank's risk appetite and risk management frameworks and policies

- Provide oversight of the risk management program ensuring that the processes in place to identify and manage risks are effective
 - Receive periodic risk reporting from the Bank on risk exposures and plans
- Chief Executive Officer (CEO) supported by the Senior Management Committee (“SMC”) and its sub-committees
 - Reviews and recommends risk appetite and risk management frameworks and policies to the Board
 - Reviews and approves risk management standards supporting Board-approved policies
 - Oversees implementation of the risk management frameworks, policies, and standards to ensure effectiveness
 - Promotes a strong risk culture through tone at the top, leadership, accountability, open and transparent communication and escalation of issues
 - Ensures strategic objectives and plans align with the Bank’s stated risk appetite and that the risks relating to strategic initiatives are understood and managed
 - Receives regular reporting on enterprise-wide risk exposures and escalates to the Board risks exceeding the Bank’s risk appetite.
- Chief Risk Officer (CRO) supported by the ERM & Compliance Teams
 - Recommends risk appetite/limits and risk management frameworks, policies and standards to the SMC and relevant sub committees
 - Develops and implements risk management tools and methodologies and provides support to management for the identification, assessment, mitigation and monitoring of risks.
 - Provides independent challenge to management’s risk management activities, including policy/standard development, risk assessment and reporting
 - Monitors risk across the Bank and escalates significant risks or concerns or incidents of non-compliance to the CEO
 - Monitors changes in the business environment, including legal and regulatory requirements, and assesses impact on the Bank’s risk exposures
 - Provides timely reporting on enterprise-wide risk exposures to the Senior Management Committee and the Board
 - Provides risk management education, training, and advice.
- Other Oversight Functions (e.g., Finance and Human Resources)
 - Recommend policies and standards to the SMC for specific risks (e.g., HR – Code of Conduct, Finance – Capital Management)
 - Monitor and provide reporting on these risks and escalate significant risks or concerns or incidents of non-compliance to the CRO and CEO
 - Provide education, training, and advice on these risks.
- Management (Risk Owners)
 - Assumes ownership of the risks in their business

- Manage day-to day-operations of their business and ensures that internal controls are designed and operating effectively
- Identify, assess, mitigate, measure, monitor, and report on risks in their areas of responsibility and adhere to the Bank’s established risk appetite, policies, and standards
- Promote a risk management culture and establishes effective internal controls within their areas
- Complete risk mitigation action plans within proposed timelines and regularly reports status of action plans
- Escalates risks or concerns to the CRO in a timely manner.
- Internal Audit
 - Provide independent assurance on the effectiveness of governance, risk management and control processes including compliance with the ERM framework, related policies and practices, and regulatory requirements.

Enterprise Risk Appetite Statement

The Bank will:

- Only take risks that fit 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 ongoing oversight;
- Maintain financial and operational resilience for severe yet plausible events;
- Ensure sound management of operational and regulatory compliance risks and maintain a strong risk culture;
- 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 Bank has a Board-approved Capital Management Policy (“CMP”) and Capital Contingency Plan (CCP) that are aligned with the Bank’s ERM framework risk appetite and strategic plan. The CMP governs the quantity and quality of capital held and ensures that it meets regulatory capital requirements. Its overall objective is to ensure that the Bank appropriately balances its capital allocation between retention of a prudent margin above regulatory capital adequacy minimums, and maintenance of sufficient freely available capital to achieve business goals and objectives. The CCP sets out the actions the Bank would consider remediating for any current or prospective deficiencies in its capital position. The CMP and CCP are reviewed at least annually and more often if required by events or changing circumstances.

Capital adequacy risk is the risk that the Bank holds insufficient capital to meet regulatory requirements and any other requirements necessary to manage the organization as a going concern, including during periods of severe but plausible stress (such as rising interest rates or housing downturn). The Bank manages its capital risk through both the CMP and the utilization of an Internal Capital Adequacy Assessment Process (“ICAAP”) in accordance with OSFI Guideline E-19.

The Bank calculates its capital ratios and regulatory capital based on the capital adequacy requirements issued by OSFI. The bank must maintain minimum levels of capital to meet minimum risk-based capital ratios. These are based on *Basel III: A global regulatory framework for more resilient banks and banking systems – A Revised Framework* (“Basel III”) reforms. For a breakdown of the different elements of the Bank’s capital, please refer to financial information available on OSFI’s website at <https://www.osfi-bsif.gc.ca/Eng/wt-ow/Pages/fd-df.aspx>.

The Bank must maintain minimum levels of capital to meet minimum risk-based capital ratios based on Basel III reforms. The Bank’s CMP addresses regulatory capital requirements including the Leverage Ratio and the Risk-Based Capital Ratios.

The Leverage Ratio is defined as the Capital Measure divided by the Exposure Measure, with the ratio expressed as a percentage. The Capital Measures are the Bank’s all-in Tier 1 capital, and the Bank’s Total Capital. The Exposure Measure consists of on-balance sheet, derivative, securities financing transactions and off-balance sheet exposures. The minimum leverage ratio for federally regulated deposit-taking institutions such as the Bank is 3%, and OSFI also establishes Leverage Ratio targets for each financial institution, which are confidential. The risk-based capital ratios are composed of the Common Equity Tier 1, Tier 2, and Total Capital Ratios. The Bank was fully compliant with its target regulatory capital and leverage ratio requirements as of December 31, 2023.

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

Key regulatory metrics for the Bank and the components of the leverage ratio are shown in the tables below. During all periods presented, all capital ratios were above OSFI’s stated minimum ratios. The Bank’s leverage ratio was also above the minimum ratio that was assigned to the Bank by OSFI.

CREDIT RISK

Credit risk is the risk of failure of a borrower or counterparty to fully honour its contractual obligations

and/or insufficient collateral due to declining real estate values. This risk also includes concentration risk involving over-exposure to a single/connected counterparty, geographic region, industry or sector. The Bank's credit risk is mainly associated with its residential mortgage and CRE and Construction 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. The Bank's approach to credit risk management policy and for setting credit risk limits can be summarized as follows:

- Conduct lending activities with a clear understanding of the credit quality, underlying serviceability, and collateral value, in alignment with the principles outlined in OSFI Guideline B20 as it relates to residential properties (i.e. one to four unit dwellings);
- Appetite for lending in highly populated provinces such as Ontario, British Columbia, Alberta, and avoid further geographic concentration risk by diversifying the mortgage portfolio amongst the other provinces. In addition, the primary focus is on properties situated near major metropolitan centres;
- Target market includes higher risk borrowers including those with bruised credit or business-for-self income;
- Appetite for residential mortgages with a first charge on the property, and require that it represents a minimum of 45% of the total assets on the balance sheet;
- Limit high CRE and Construction lending exposures to a single related group of borrowers;
- Participation and whole loan CRE and Construction mortgages only extended on Canadian real estate primarily in larger census metropolitan areas, and when they demonstrate clear project viability and meet the "5 C's of Credit": Character, Capacity, Capital, Collateral and Conditions and other requirements contained in the Bank's construction and commercial policy;
- CRE and Construction loans are not extended to specific asset classes such as those that generate environmental contamination that causes risk to human health, standalone gas stations, places of worship or schools;
- Low appetite for CRE and Construction mezzanine loans due to the higher risk exposure and high risk weight for capital purposes; and
- Low appetite for credit risk exposure in the Bank's liquidity portfolio.

Managing and monitoring credit risk

The Bank manages credit risk through its Construction Credit Committee ("CCC") and Residential Lending Credit Committee ("RLCC"). The RLCC 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 aforementioned credit committees 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 and compliance with underwriting policies and guidelines.

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 CRE and construction loans. The Bank's uninsured residential mortgages that are held on-balance sheet and the CRE and construction loans are concentrated in the provinces of Ontario, British Columbia, and Alberta. The Bank's NHA insured mortgages for multi-unit residential loans are concentrated in the provinces of Ontario and British Columbia.

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 and CRE loans are located in that province.

The Bank's CRE portfolio primarily comprises of loans for multi-unit residential properties making up 76% of all outstanding commercial loans at December 31, 2023. The remaining loans are comprised of office space at 9%, industrial at 9%, and retail at 6% of all outstanding CRE loans.

The Bank's portfolio of construction loans primarily comprises of loans for residential construction making up 81% of the total outstanding construction loans at December 31, 2023, with the remaining 19% of loans related to land acquisition and development.

LIQUIDITY AND FUNDING RISK

Liquidity and funding risk refers to the inability of an entity 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, 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 Risk Management Policy and the Contingency Funding Plan 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 a combination of 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 the selling of assets to generate cashflow.

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 manages the portfolio in line with internal concentration limits, and also, from time to time, deposit dealer-imposed concentration limit restrictions. The risk has been proactively mitigated through a more diversified dealer network and active monitoring and management of limits.

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.

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 Management 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, 2023, the Bank's investment risk is largely limited to its third-party issued CMBs having a par value of \$2.5 million, federal government bonds of \$14.7 million, Provincial Bonds consisting of \$30.2 million, and equity securities of \$12 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 Management 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.

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 and ensure operational resiliency. Operational risks include the following:

<i>Transaction/ Process</i>	<i>Ineffective design, implementation or execution of a process or transaction. Includes incidents such as system failures, inaccurate data input/calculations, untimely service delivery, accounting or reporting errors, and inefficient or unscalable processes.</i>
<i>People</i>	<i>Inadequate capacity, capability and/or competency of human resources operating the business. Includes risks relating to employee retention, performance management, development, resourcing, and employee health & safety.</i>
<i>Conduct</i>	<i>Risk of inappropriate, unethical, or unlawful behaviour on the part of management or employees that could harm employees or customers, or abuse financial markets, potentially damaging the Bank's reputation. Includes conflicts of interest, inappropriate incentive/bonus schemes, harassment/discrimination, unfair pricing practices.</i>
<i>Internal/ External Fraud</i>	<i>Risk of loss through intentional unauthorized activities, misrepresentation of facts or withholding of information to secure an unlawful gain. Fraud can be initiated by one or more parties including employees, potential or existing clients, agents, suppliers or outsourcers, or other external parties.</i>
<i>Change Management</i>	<i>Risk arising from changes to products/services, processes, organizational structures, business partnerships, technologies etc.</i>
<i>Model</i>	<i>Inappropriate decisions from relying on inaccurate, unsound, or outdated financial models. Risk may be related to inappropriate model design/ development, flawed assumptions, inaccurate, outdated, or incomplete input data.</i>
<i>Information Governance</i>	<i>Reliance on data/information that is incomplete, outdated, inaccurate, invalid, untimely and/or inaccessible. This risk can impact the Bank's ability to make informed decisions and develop accurate reporting for management, regulators, and customers.</i>
<i>Technology</i>	<i>Risk arising from the use of technology that is outdated, untested/unproven, poorly integrated, or not adequate/suitable for the Bank's needs.</i>

<i>Information Security</i>	<i>Failure to protect information from unauthorized use, disruption, modification, or destruction or to protect the confidentiality of customer, employee, and corporate data</i>
<i>Vendor/ Third Party</i>	<i>Risk exposures to a business partner, vendor, supplier, or agent/broker from their failure to adequately perform the services contracted for.</i>
<i>Physical Security</i>	<i>Failure to protect people, property, and other assets from threats such as theft, vandalism, fire, natural disasters, and terrorism.</i>
<i>Business Continuity</i>	<i>Inability to continue business operations under adverse conditions that may arise from natural, technological, or man-made hazards (e.g., flood, earthquake, pandemic, electricity grid failures).</i>

Operational resiliency refers to the Bank's ability to deliver its operations, including critical operations through disruption. Operational resilience focuses on such items as preparation, response, recovery, learning, and adaptation by assuming disruptions, including simultaneous disruptions, will occur.

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, market conditions 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.

KEY METRICS

		Q4-2023	Q3-2023	Q2-2023	Q1-2023	Q4-2022
		T	T-1	T-2	T-3	T-4
Available capital (amounts in thousands)						
1	Common Equity Tier 1 (CET1)	203,628	194,404	188,846	185,080	182,784
1a	Common Equity Tier 1 with transitional arrangements for ECL provisioning not applied					182,371
2	Tier 1	203,628	194,404	188,846	185,080	182,784
2a	Tier 1 with transitional arrangements for ECL provisioning not applied					182,371
3	Total capital	207,895	197,860	192,825	189,318	185,387
3a	Total capital with transitional arrangements for ECL provisioning not applied (%)					185,387
Risk-weighted assets (amounts in thousands)						
4	Total risk-weighted assets (RWA)	1,216,472	1,214,042	1,199,852	1,156,508	1,105,133
4a	Total risk-weighted assets (pre-floor)					
Risk-based capital ratios as a percentage of RWA						
5	CET1 ratio (%)	16.74%	16.01%	15.74%	16.00%	16.54%
5a	Common Equity Tier 1 ratio with transitional arrangements for ECL provisioning not applied					16.50%
5b	CET1 ratio (%) (pre-floor ratio)					
6	Tier 1 ratio (%)	16.74%	16.01%	15.74%	16.00%	16.54%
6a	Tier 1 ratio with transitional arrangements for ECL provisioning not applied (%)					16.50%
6b	Tier 1 ratio (%) (pre-floor ratio)					
7	Total capital ratio (%)	17.09%	16.30%	16.07%	16.37%	16.78%
7a	Total capital ratio with transitional arrangements for ECL provisioning not applied (%)					16.78%
7b	Total capital ratio (%) (pre-floor ratio)					
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (2.5% from 2019) (%)					
9	Countercyclical buffer requirement (%)					
10	Bank G-SIB and/or D-SIB additional requirements (%) [Not applicable for SMSBs]					
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)					
12	CET1 available after meeting the bank's minimum capital requirements (%)					
Basel III Leverage ratio (amounts in thousands except %)						
13	Total Basel III leverage ratio exposure measure	2,185,310	2,138,854	2,131,605	2,134,158	2,090,889
14	Basel III leverage ratio (row 2 / row 13)	9.32%	9.09%	8.86%	8.67%	8.74%
14a	Basel III leverage ratio (row 2a / row 13) with transitional arrangements for ECL provisioning not applied					8.72%

LEVERAGE RATIO

		Q4 2023	Q3 2023
		T	T-1
On- balance sheet exposures (amounts in thousands)			
1	On- balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	2,158,756	2,084,553
2	Gross- up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework (IFRS)		
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)		
4	(Asset amounts deducted in determining Tier 1 capital)	- 198	0
5	Total on- balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 to 4)	2,158,558	2,084,553
Derivative exposures (amounts in thousands)			
6	Replacement cost associated with all derivative transactions	-	-
7	Add- on amounts for potential future exposure associated with all derivative transactions	42	48
8	(Exempted central counterparty- leg of client cleared trade exposures)		
9	Adjusted effective notional amount of written credit derivatives		
10	(Adjusted effective notional offsets and add- on deductions for written credit derivatives)		
11	Total derivative exposures (sum of lines 6 to 10)	42	48
Securities financing transaction exposures (amounts in thousands)			
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 (amounts in thousands)			
17	Off- balance sheet exposure at gross notional amount	66,776	135,634
18	(Adjustments for conversion to credit equivalent amounts)	- 40,066	- 81,380
19	Off- balance sheet items (sum of lines 17 and 18)	26,710	54,253
Capital and total exposures (amounts in thousands)			
20	Tier 1 capital	203,628	194,404
21	Total Exposures (sum of lines 5, 11, 16 and 19)	2,185,310	2,138,854
Leverage ratio			
22	Basel III leverage ratio	9.32%	9.09%
Disclosure of mean values			