



BANK OF CANADA

## **BASEL III PILLAR 3 DISCLOSURES**

**MARCH 31, 2023**

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**RFA BANK OF CANADA**  
**BASEL III PILLAR 3 DISCLOSURES**  
**MARCH 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), 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 own 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 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").

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 March 31, 2023, the Bank had 53,127,000 shares outstanding.

	<b>March 31, 2023</b>	<b>December 31, 2022</b>
	<b>All-In Basis</b>	<b>All-In Basis</b>
<b>(in thousands of \$)</b>		
Common Equity Tier 1 capital (CET 1)		
Capital stock	\$ 53,127	\$ 53,127
Contributed surplus	3,226	3,226
Retained earnings	130,972	128,598
Accumulated other comprehensive income	(2,243)	(2,577)
Eligible Stage 1 and Stage 2 allowances	-	413
Less: Regulatory adjustments to CET 1 ( <b>Note 1</b> )	(1)	(3)
Total CET 1 capital	\$ 185,081	\$ 182,784
Additional Tier 1 capital	-	-
Total Tier 1 capital	\$ 185,081	\$ 182,784
Total Tier 2 capital (eligible Stage 1 and Stage 2 allowances)	4,238	2,603
Total regulatory capital	\$ 189,319	\$ 185,387

**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 March 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 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.

	March 31 2023			December 31 2022		
	Balance Sheet	Effective Risk Weight	Risk-Weighted Amount	Balance Sheet	Effective Risk Weight	Risk-Weighted Amount
	All-In Basis			All-In Basis		
<i>(in thousands of \$)</i>						
Cash and cash equivalents	\$ 76,021	20.00%	\$ 15,204	\$ 60,977	20.00%	\$ 12,195
Debt Securities	46,432	0.00%	-	45,993	0.00%	-
Equity Securities	9,916	100.00%	9,916	9,689	100.00%	9,689
Insured residential mortgages	57,802	3.40%	1,967	71,692	3.27%	2,345
Uninsured residential mortgages	1,347,726	35.42%	477,404	1,345,885	35.14%	472,903
Construction mortgages	296,004	100.00%	296,004	279,246	100.00%	279,246
Commercial mortgages	102,181	100.00%	102,181	87,727	100.00%	87,727
Other assets	107,449	90.64%	97,397	101,732	89.66%	91,213
Total assets subject to risk rating	\$ 2,043,531	48.94%	\$ 1,000,073	\$ 2,002,941	47.70%	\$ 955,318
Allowance for credit losses	(4,344)	2.44%	(106)	(3,068)	1.69%	(52)
Total assets	\$ 2,039,187		\$ 999,967	\$ 1,999,872		\$ 955,266
Off-balance sheet exposure (loan commitments)			94,451			91,020
Total assets and off-balance sheet exposure	\$ 2,039,187		\$ 1,094,418	\$ 1,999,872		\$ 1,046,286
Operational risk (average three-year annual gross income)			62,074			58,847
Total risk-weighted assets for CVA risk			\$ 15			
Total risk-weighted assets	\$ 2,039,187		\$ 1,156,507	\$ 1,999,872		\$ 1,105,133

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.

	March 31, 2023	December 31, 2022
Total risk-weighted assets	\$ 1,156,495	\$ 1,105,133
Regulated capital to risk-weighted assets		
CET 1 ratio	16.00%	16.54%
Tier 1 capital ratio	16.00%	16.54%
Total regulatory capital ratio	16.37%	16.78%
Leverage ratio	8.67%	8.74%
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 March 31, 2023, 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 \$67 million of undrawn construction and commercial commitments as at March 31, 2023, for which \$163 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 (30%), 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 March 31, 2023.

<i>(in thousands of \$)</i>	Total Residential Uninsured	Total Residential Insured	Construction Loans	Commercial Loans	All Balance Sheet Loans
<b>January 1, 2023</b>	\$ 1,347,058	\$ 71,071	\$ 281,006	\$ 88,003	\$ 1,787,138
Originations	76,435	-	-	-	76,435
Purchases / Buybacks	-	26,181	38,731	14,500	79,412
Sales / Derecognition	-	(32,808)	-	-	(32,808)
Net repayments and other	(75,767)	(6,642)	(23,733)	(322)	(106,464)
<b>March 31, 2023</b>	\$ 1,347,726	\$ 57,802	\$ 296,004	\$ 102,181	\$ 1,803,713
Allowance for credit losses	(3,367)	-	(726)	(250)	(4,343)
<b>Net at March 31, 2023</b>	\$ 1,344,359	\$ 57,802	\$ 295,278	\$ 101,931	\$ 1,799,370
<b>Gross loans excluding deferred costs and fees</b>	\$ 1,348,687	\$ 57,221	\$ 297,684	\$ 102,490	\$ 1,806,082
<b>Allowance for credit loss as a % of gross loans excluding deferred costs and fees</b>	(0.25%)	0.00%	(0.24%)	(0.24%)	(0.24%)

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

<i>(in thousands of \$)</i>	Mar 31, 2023				
	Alberta	British Columbia	Ontario	All Other Provinces	Total
Held for sale	\$ 461	\$ 570	\$ 865	\$ -	\$ 1,896
Held to collect					
Residential insured	\$ 12,799	\$ 10,641	\$ 26,134	\$ 6,332	\$ 55,906
Residential uninsured	144,914	209,715	947,859	45,238	1,347,726
Construction and Commercial loans	82,274	116,127	191,818	7,966	398,185
Total held to collect	\$ 239,987	\$ 336,483	\$ 1,165,811	\$ 59,536	\$ 1,801,817
As a % of portfolio	13%	19%	65%	3%	100%
All gross loans	\$ 240,448	\$ 337,053	\$ 1,166,676	\$ 59,536	\$ 1,803,713
As a % of portfolio	13%	19%	65%	3%	100%

<i>(in thousands of \$)</i>	December 31, 2022				
	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%	18%	64%	3%	100%
All gross loans	\$ 253,858	\$ 329,608	\$ 1,142,101	\$ 58,983	\$ 1,784,550
As a % of portfolio	14%	18%	64%	3%	100%

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

	Mar 31, 2023				
	Alberta	British Columbia	Ontario	All Other Provinces	Total
Held for sale	80.00%	96.54%	60.98%	0.00%	76.30%
Held to collect					
Residential insured	72.86%	86.05%	79.19%	84.10%	79.60%
Residential uninsured	75.86%	68.27%	67.35%	74.57%	68.65%
Total held to collect	75.61%	69.13%	67.67%	75.74%	69.09%
All gross loans	75.62%	69.20%	67.66%	75.74%	69.10%

  

	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%

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

*(in thousands of \$)*

	March 31, 2023				
	Within 1 year	1 - 3 years	3 - 5 years	Total	
RFA Alternative mortgages	\$ 514,625	\$ 317,457	\$ 6,751	\$ 838,833	
Prime uninsured mortgages	1,961	-	750	2,711	
Alt-A third party mortgages	401,507	105,636	-	507,143	
Non-securitized insured prime mortgages	-	1,215	681	1,896	
Purchased insured mortgages	11,663	-	-	11,663	
Stamped insured mortgages	3,264	368	40,030	43,662	
Construction loans	226,596	71,088	-	297,684	
Commercial loans	30,388	63,602	8,500	102,490	
Total mortgages and loans	\$ 1,190,004	\$ 559,366	\$ 56,712	\$ 1,806,082	

*(in thousands of \$)*

	December 31, 2022				
	Within 1 year	1 - 3 years	3 - 5 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	

### **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 impact from 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 Bank continues 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 March 31, 2023, and December 31, 2022.

**(in thousands of \$)**

	<b>March 31, 2023</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
RFA Alternative mortgages	\$ 776,118	\$ 57,120	\$ 4,849	\$ 838,087
Prime uninsured mortgages	2,711	-	-	2,711
Alt-A third party mortgages	449,433	57,132	363	506,929
Non-securitized insured prime mortgages	1,895	-	-	1,895
Stamped insured mortgages	44,243	-	-	44,243
Purchased insured mortgages	11,663	-	-	11,663
Construction loans	296,004	-	-	296,004
Commercial loans	102,181	-	-	102,181
<b>Total</b>	<b>\$ 1,684,249</b>	<b>\$ 114,252</b>	<b>\$ 5,212</b>	<b>\$ 1,803,713</b>

**(in thousands of \$)**

	<b>December 31, 2022</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
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
<b>Total</b>	<b>\$ 1,755,886</b>	<b>\$ 27,010</b>	<b>\$ 1,654</b>	<b>\$ 1,784,550</b>

The following table provide a reconciliation of the opening to closing ECL balance for the Bank's portfolio for the quarter ending March 31, 2023. 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 \$)*

	<b>Three months ended March 31, 2023</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Residential Mortgages</b>				
Balance at the beginning of the period	\$ 1,337	\$ 778	\$ 52	\$ 2,167
Mortgages originated	93	6	-	99
Transfers from Stage 1	(135)	129	6	-
Transfers from Stage 2	21	(22)	1	-
Transfers from Stage 3	-	-	-	-
Mortgages paid or derecognized	(97)	(1)	-	(98)
Remeasurement	51	1,101	47	1,199
Balance at the end of the period	\$ 1,271	\$ 1,991	\$ 106	\$ 3,366
<b>Construction mortgages loans</b>				
Balance at the beginning of the period	\$ 686	\$ -	\$ -	\$ 686
Mortgages originated	95	-	-	95
Mortgages paid or derecognized	(54)	-	-	(54)
Balance at the end of the period	\$ 727	\$ -	\$ -	\$ 727
<b>Commercial mortgages loans</b>				
Balance at the beginning of the period	\$ 215	\$ -	\$ -	\$ 215
Mortgages originated	35	-	-	35
Mortgages paid or derecognized	-	-	-	-
Balance at the end of the period	\$ 250	\$ -	\$ -	\$ 250
Total Allowance for credit losses	\$ 2,248	\$ 1,991	\$ 106	\$ 4,343

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:

<i>(in thousands of \$)</i>						March 31, 2023	
	Current	1 - 30 days	31 - 60 days	61 - 90 days	> 90 days	Total	
RFA Alternative mortgages	\$ 810,370	\$ 18,048	\$ 4,905	\$ 2,102	\$ 3,408	\$ 838,833	
Prime uninsured mortgages	2,711	-	-	-	-	2,711	
Alt-A third party mortgages	495,139	9,507	1,825	672	-	507,143	
Non-securitized insured prime mortgages	1,896	-	-	-	-	1,896	
Purchased insured mortgages	10,369	734	422	138	-	11,663	
Stamped insured mortgages	43,662	-	-	-	-	43,662	
Construction loans	297,684	-	-	-	-	297,684	
Commercial loans	102,490	-	-	-	-	102,490	
<b>Total mortgages and loans</b>	<b>\$1,764,321</b>	<b>\$ 28,289</b>	<b>\$ 7,152</b>	<b>\$ 2,912</b>	<b>\$ 3,408</b>	<b>\$1,806,082</b>	

<i>(in thousands of \$)</i>						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	
<b>Total mortgages and loans</b>	<b>\$1,746,732</b>	<b>\$ 17,600</b>	<b>\$ 21,152</b>	<b>\$ 411</b>	<b>\$ 1,243</b>	<b>\$1,787,138</b>	

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 March 31, 2023.

As of March 31, 2023, the Bank had specifically identified 13 loans totaling \$5,217 thousand as impaired, and individually assessed (Stage 3) allowance for credit losses of \$106 thousand was recorded for these loans. As of March 31, 2023, 96.6% of the performing RFA Alternative mortgages were current, compared to 98.3% as of December 31, 2022.



## 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:

<i>(in thousands of \$)</i>	<b>March 31, 2023</b>	<b>December 31, 2022</b>
Deposits with regulated financial institutions	\$ 74,212	\$ 59,696
Marketable securities	\$ 46,432	\$ 45,993
Loans held for sale	\$ 1,896	\$ 17,596
Stamped mortgages	\$ 44,243	\$ 44,947
Total liquid assets	<b>\$ 166,783</b>	<b>\$ 168,232</b>

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 Mar 31, 2023**

	<b>0 - 3 Months</b>	<b>3 - 12 Months</b>	<b>1 to 3 Years</b>	<b>Over 3 Years</b>	<b>Total</b>
<b>Remaining contractual term</b>					
Residential mortgages	\$ 250,027	\$ 684,118	\$ 423,549	\$ 48,214	\$ 1,405,908
Construction and commercial loans	80,278	176,706	134,690	8,500	400,174
Deposits (GICs)	(252,893)	(787,886)	(604,094)	(153,256)	(1,798,129)
Net maturity	\$ 77,412	\$ 72,938	\$ (45,855)	\$ (96,542)	\$ 7,954

## **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 March 31, 2023, the Bank's investment risk is largely limited to its CMBs having a par value of \$22.3 million, Provincial Bonds consisting of \$26.3 million, and stamped mortgages of \$44.2 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.

<b>As at March 31, 2023</b>		
<b><i>(in thousands of \$, except %)</i></b>	<b>Increase in interest rates</b>	<b>Decrease in interest rates</b>
<b>100 basis point parallel shift</b>		
Impact on net interest income	<b>\$ 4,308</b>	<b>\$ (4,826)</b>
Impact on EVE	<b>4,569</b>	<b>(5,762)</b>
EVE as a % of shareholders' equity	<b>2.15%</b>	<b>(2.71%)</b>
<b>200 basis point parallel shift</b>		
Impact on net interest income	<b>\$ 8,449</b>	<b>\$ (9,597)</b>
Impact on EVE	<b>8,717</b>	<b>(11,574)</b>
EVE as a % of shareholders' equity	<b>4.09%</b>	<b>(5.43%)</b>

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 March 31, 2023, position of the Bank's assets, liabilities and equity by maturity and weighted average contractual rate.

March 31, 2023							
<i>(in thousands of \$, except %)</i>	Floating Rate	0 to 3 Months	4 Months to 1 Year	1 Year to 5 Years	Greater than 5 Years	Non Rate Sensitive	Total <sup>1</sup>
<b>Assets</b>							
Cash and restricted cash	\$ 76,021	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 76,021
Weighted Average Contractual Rate	4.71%	-	-	-	-	-	4.71%
Debt securities	-	40	22,234	24,158	-	-	46,432
Weighted Average Contractual Rate	-	2.35%	2.55%	2.64%	-	-	2.60%
Equity securities	-	-	-	-	-	9,916	9,916
Weighted Average Contractual Rate	-	-	-	-	-	-	-
Non-securitized mortgages							
- Purchased insured loans - HFS	391	-	-	1,505	-	-	1,896
Weighted Average Contractual Rate	5.85%	-	-	3.82%	-	-	4.24%
Non-securitized mortgages							
- RFA Alternative	-	106,363	408,386	324,083	-	(2,890)	835,942
Weighted Average Contractual Rate	-	3.94%	5.68%	4.80%	-	-	5.14%
Non-securitized mortgages							
- Purchased uninsured loans	-	134,672	267,836	104,635	-	(1,404)	505,739
Weighted Average Contractual Rate	-	3.71%	4.66%	4.89%	-	-	4.47%
Non-securitized mortgages							
- Purchased insured loans	-	5,173	6,490	-	-	-	11,663
Weighted Average Contractual Rate	-	7.25%	8.32%	-	-	-	7.84%
Non-securitized mortgages							
- Construction loans	297,684	-	-	-	-	(2,406)	295,278
Weighted Average Contractual Rate	9.33%	-	-	-	-	-	9.33%
Non-securitized mortgages							
- stamped mortgages	17,428	526	321	25,388	-	580	44,243
Weighted Average Contractual Rate	5.62%	3.56%	3.44%	2.03%	-	-	3.40%
Non-securitized mortgages							
- other	750	876	1,084	-	-	(34)	2,676
Weighted Average Contractual Rate	5.95%	3.74%	3.63%	-	-	-	4.36%
Non-securitized mortgages							
- Commercial Loan	94,490	-	-	8,000	-	(560)	101,930
Weighted Average Contractual Rate	8.86%	-	-	3.55%	-	-	8.49%
Other assets	-	-	-	-	-	107,451	107,451
Weighted Average Contractual Rate	-	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 486,764</b>	<b>\$ 247,650</b>	<b>\$ 706,351</b>	<b>\$ 487,769</b>	<b>\$ -</b>	<b>\$ 110,653</b>	<b>\$ 2,039,187</b>
Weighted Average Contractual Rate	8.37%	3.87%	5.22%	4.54%	-	-	5.36%
<b>Liabilities</b>							
Cashable GICs <sup>2</sup>	\$ -	\$ 23,168	\$ -	\$ -	\$ -	\$ (46)	\$ 23,122
Weighted Average Contractual Rate	-	3.86%	-	-	-	-	3.87%
Non-cashable GICs	-	252,638	765,267	757,056	-	(4,135)	1,770,826
Weighted Average Contractual Rate	-	2.88%	3.62%	3.63%	-	-	3.53%
Other liabilities	-	-	-	-	-	60,158	60,158
Weighted Average Contractual Rate	-	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	-	185,081	185,081
Weighted Average Contractual Rate	-	-	-	-	-	-	-
<b>Total liabilities and shareholders' equity</b>	<b>\$ -</b>	<b>\$ 275,807</b>	<b>\$ 765,267</b>	<b>\$ 757,056</b>	<b>\$ -</b>	<b>\$ 241,058</b>	<b>\$ 2,039,187</b>
Weighted Average Contractual Rate	-	2.96%	3.62%	3.63%	-	-	3.11%
<b>Excess (deficiency) of assets over liabilities and shareholders' equity</b>	<b>\$ 486,764</b>	<b>\$ (28,155)</b>	<b>\$ (58,918)</b>	<b>\$ (269,286)</b>	<b>\$ -</b>	<b>\$ (130,403)</b>	<b>\$ -</b>

<sup>1</sup> Accrued interest is included in "Other assets" and "Other liabilities", respectively.

<sup>2</sup> Cashable GICs are redeemable by the depositor after 90 days from the issue date.

## OPERATIONAL RISK

Operational risk is the risk of loss resulting from either inadequate or failed internal processes, people and systems, or from external events. Operational risk cannot be completely eliminated, since it is inherent in all business activities. While aware of these constraints, the Bank takes proactive steps to mitigate its operational risk. Operational risks include the following:

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

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

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

- risk and control self-assessments by individual business units;
- risk assessment of new business initiatives 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 March 31, 2023 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
<b>Common Equity Tier 1 capital: instruments and reserves</b>		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	56,353
2	Retained earnings	130,972
3	Accumulated other comprehensive income (and other reserves)	(2,243)
6	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	185,082
<b>Common Equity Tier 1 capital: regulatory adjustments</b>		
28	Total regulatory adjustments to Common Equity Tier 1	(1)
29	<b>Common Equity Tier 1 capital (CET1)</b>	185,081
29a	not applied	185,081
<b>Additional Tier 1 capital: regulatory adjustments</b>		
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	185,081
45a	<b>Tier 1 capital with transitional arrangements for ECL provisioning not applied</b>	185,081
<b>Tier 2 capital: instruments and allowances</b>		
50	Collective allowances	4,238
51	<b>Tier 2 capital before regulatory adjustments</b>	4,238
<b>Tier 2 capital: regulatory adjustments</b>		
58	<b>Tier 2 capital (T2)</b>	4,238
59	<b>Total capital (TC = T1 + T2)</b>	189,319
59a	<b>Total capital with transitional arrangements for ECL provisioning not applied</b>	189,319
60a	<b>Common Equity Tier 1 (CET1) Capital RWA</b>	1,156,508
60b	<b>Tier 1 Capital RWA</b>	1,156,508
60c	<b>Total Capital RWA</b>	1,156,508
<b>Capital Ratios</b>		
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	16.00%
61a	Common Equity Tier 1 with transitional arrangements for ECL provisioning not applied	16.00%
62	Tier 1 (as percentage of risk-weighted assets)	16.00%
62a	Tier 1 with transitional arrangements for ECL provisioning not applied	16.00%
63	Total capital (as percentage of risk-weighted assets)	16.37%
63a	Total capital with transitional arrangements for ECL provisioning not applied	16.37%
<b>OSFI all-in target</b>		
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)	2,039,189
2	(Asset amounts deducted in determining Basel III "all-in" Tier 1 capital)	(1)
3	<b>Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)</b>	<b>2,039,188</b>
Derivative exposures		
4	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	16
5	Add-on amounts for PFE associated with all derivative transactions	18
11	<b>Total derivative exposures (sum of lines 4 to 10)</b>	<b>34</b>
Securities financing transaction exposures		
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	189,876
18	(Adjustments for conversion to credit equivalent amounts)	(94,938)
19	<b>Off-balance sheet items (sum of lines 17 and 18)</b>	<b>94,938</b>
Capital and Total Exposures		
20	<b>Tier 1 capital</b>	<b>185,080</b>
20a	<b>Tier 1 capital with transitional arrangements for ECL provisioning not applied</b>	<b>185,080</b>
21	<b>Total Exposures (sum of lines 3, 11, 16 and 19)</b>	<b>2,134,160</b>
Leverage Ratios		
22	<b>Basel III leverage ratio</b>	<b>8.67%</b>
22a	<b>Basel III leverage ratio with transitional arrangements for ECL provisioning not applied</b>	<b>8.67%</b>