WealthONE
BANK OF CANADA

Basel III Pillar 3 Disclosures

December 31, 2022

Basis of Preparation

These Basel III Pillar 3 disclosures (the "Disclosures") are prepared pursuant to the Office of the Superintendent of Financial Institutions (OSFI) regulatory requirements and are based on the global standards that have been established by the Basel Committee on Banking Supervision ("BCBS"). The amounts disclosed in this document are as at December 31, 2022 and unaudited. The figures were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the accounting requirements specified by OSFI, and reflect where necessary, management's best estimates and judgments.

Specifically, this report provides qualitative and quantitative disclosures relating to Wealth One Bank of Canada's Basel III Pillar 3 regulatory capital, lending portfolio, and residential mortgage underwriting practices and procedures as per OSFI B-20 Guideline.

Nature of Operations

Wealth One Bank of Canada (the "Bank" or "WealthONE") is a federally regulated Schedule I chartered bank under the regulatory supervision of OSFI. Operations of the Bank commenced in September 2016.

The Bank specializes in residential and commercial mortgages, and personal loans secured by insurance policies and deposits. The Bank currently serves customers in all provinces (except Quebec Province) across Canada and offers its products or services in Canadian dollars only.

Governance

The Board of Directors (the "Board") is responsible for establishing the overall strategy and objectives of the Bank and its overall risk appetite. The risk appetite framework addresses the limits of the risks that the Bank assumes and the Bank's conduct with respect to its stakeholders. The Bank's strategies and the management of its risks are supported by the enterprise risk management ("ERM") framework which includes policies, management standards, and guidelines for each Bank risk category (e.g., credit risk). ERM involves the Board of Directors, the committees of the Board, senior management, and other employees to identify, measure, manage and monitor risks. At all levels of the Bank, ERM is applied in defining strategies and setting goals, helping to ensure that these can be accomplished within the Bank's defined risk appetite.

First Line of Defense

The First Line of Defense is represented by the business units. Business units and support areas "own" the responsibility for identifying and managing risk and compliance matters relevant to their areas of control and responsibility. At the Bank, the First Line of Defense includes Finance, Marketing, Operations, IT, and Human Resources.

The First Line of Defense owns the inherent risks and the responsibility for managing the risks that arise within their areas of accountability. Business unit managers incorporate risk management and compliance as an integral part of their planning and day-to-day activities.

With respect to Enterprise Risk Management, the First Line of Defense is responsible for:

- Owning the risks associated with business activities
- Exercising business judgement to evaluate risk
- Ensuring activities are within the Bank's risk appetite and risk management policies.

In addition, the First Line of Defense is responsible for:

- Identifying and assessing the inherent risks within their respective business units based on likelihood and impact;
- Developing, documenting, and implementing internal control procedures within their departments;
- Ensuring that risk management/compliance controls and procedures are fully integrated into the day-to-day activities and operating practices of their units;
- Continually testing and evaluating internal controls to ensure they are working as intended;
- Ensuring departmental processes, procedures and resources are sufficient and appropriate for managing the risks within their areas of responsibility;
- Ensuring timely and accurate escalation and remediation of material risk events.

Second Line of Defense

The Second Line of Defense consists of the oversight functions that independently identify, measure, monitor and report risk on an enterprise basis. Within the Bank the oversight functions include Risk Management and Compliance.

The oversight functions are independent of the business units and report directly to a Committee of the Board (Chief Risk Officer ("CRO") to the Risk Committee, the Lead Internal Auditor to the Audit Committee and the Chief Compliance Officer ("CCO") to the Governance, Conduct Review and Human Resources Committee) and administratively to the Chief Executive Officer ("CEO").

Risk Management has the primary responsibility for overseeing and coordinating all risk functions for the enterprise including the design and implementation of the Bank's Risk Management Framework. Compliance is responsible for overseeing and coordinating compliance activities at the Bank including regulatory compliance, anti-money laundering program, the privacy program and other legislative/regulatory requirements.

With respect to Enterprise Risk Management, the Second Line of Defense is responsible for:

- Independently facilitating and monitoring the implementation of effective risk management practices;
- Policy development, measurement and reporting, limits and controls, oversight and monitoring;
- Providing objective challenge to the first line of defence;
- Providing training, tools and advice to support policy and compliance.

In addition, the Second Line of Defense is responsible for:

- Identifying, assessing, measuring, and monitoring the risks in their areas of responsibility with the First Line of Defense;
- Providing expert advice to the First Line of Defense where specialist knowledge may be required i.e., legal advice, interpretation of requirements, engaging third party experts etc.1;
- Providing effective independent challenge to the First Line's assessment of inherent risk, control effectiveness and management practices2;
- Developing appropriate policies, processes, and procedures to ensure appropriate oversight, monitoring and reporting of the Bank's risk management/compliance practices and exposures;
- Conducting periodic testing of the business unit's implementation of its risk management/compliance programs and verification of key information provided in management reports;
- Ensuring timely and accurate escalation of material risk/compliance events; and
- Monitoring progress on the remediation of identified risk deficiencies.

Third Line of Defense

Internal Audit represents the Third Line of Defense. Internal Audit is independent of both the first and Second Lines of Defense, reports directly to the Audit and Conduct Review Committee of the Board and administratively to the CEO. Internal Audit is responsible for providing an independent and objective assessment of the adequacy of, adherence to and effectiveness of the Bank's enterprise risk management/compliance programs and internal controls and in particular the effectiveness of the Second Line of Defense in the implementation and administration of their departmental duties.

With respect to Enterprise Risk Management, through testing, Internal Audit is responsible for:

- Independent monitoring and the oversight function
- Focusing on governance framework and control systems
- Auditing findings reported to management and Audit Committee

In addition, the Third Line of Defense is responsible for:

- Confirming the level of compliance with the rules, regulations, and policies applicable to the business.
- Presenting reports to the Board and Senior Management on the results of effectiveness reviews. Internal Audit assessments are conducted on a rotational basis using a risk-based approach to determine its areas of focus. In conducting its testing in specialty areas, such as IT, Internal Audit may be required to engage the services of outside experts to assist in this process.

Internal Audit should confirm that Second Line units are themselves operating in a manner consistent with their responsibilities and the expectations of the board, that they comply with established policies and procedures, that the approach to risk management and compliance is appropriate given the size, complexity and risk profile of the Bank, the effectiveness of the risk management tools deployed and the adequacy of the monitoring, reporting and governance processes. Internal Audit should also consider and comment on the appropriateness of the independent challenge applied by the Second Line of Defense.

[1] In providing advice, the oversight functions are not assuming responsibility for or managing the risks. The risks remain with the business units.

[2] Independent Challenge means developing an independent view regarding the quality and sufficiency of the business unit's risk management activities, including the identification and assessment of risks; identification and assessment of controls, risk response (e.g., acceptance, transfer, or mitigation), quality and frequency of monitoring and report activities and management of deficiencies.

Board Level Committees:

To assist in exercising its responsibilities, the Board has established four standing committees: the Audit Committee (“AC”), the Risk Committee (“RC”) and the Governance, Conduct Review and Human Resource Committee (“GCRHRC”), and the Credit Review Committee (“CRC”).

In addition to the four standing committees, the Board may, from time-to-time form ad hoc/special committees to accomplish specific objectives that do not fall naturally within the mandates of any of the standing committees. Ad hoc committees are dissolved once their objectives have been met.

Each committee has a written mandate approved by the Board that sets out its responsibilities and qualifications for committee membership under applicable laws and regulations. The GCRHRC reviews the committee mandates at least annually to ensure appropriate allocation of responsibilities. The committees regularly review and assess the adequacy of their own mandates to ensure that regulatory requirements and best practices are reflected and recommend changes for approval by the Board.

Committees meet as required to consider matters brought to it for consideration by Management or at the request of the Board. All meetings are minuted and available for review. Standing committee composition is recommended annually by the GCRHRC and approved by the Board. Participation on ad hoc committees is by resolution of the Board at the time the committee is formed. Following each meeting, the committee Chair reports to the Board verbally and in writing on the committee’s activities and makes such recommendations as are deemed appropriate in the circumstances.

Each committee assesses its effectiveness annually to ensure that it has effectively fulfilled its responsibilities as set out in its mandate. The Chair of each committee, in consultation with the committee members and senior management, develops work plans for the year, which provide a thematic view of the forward agenda and are intended to focus the committee on the most important aspects of its mandate with sufficient frequency.

Governance, Conduct Review and Human Resources Committee

The GCRHRC acts as the nominating committee responsible for recommending to the Board individuals qualified to become directors. The GCRHRC oversees the Board’s effectiveness evaluation process. The GCRHRC is responsible for advising the Board in applying governance principles, monitoring developments in corporate governance and adapting best practices to the needs and circumstances of the Bank. The GCRHRC also considers and recommends to the Board candidates for CEO and, in consultation with the CEO, for such other senior management as the Board may request from time to time.

The GCRHRC fulfills the role of a conduct review committee for the Bank as required by the Act. In this capacity, the GCRHRC ensures that management has established practices and procedures relating to self-dealing and personal loans as required by the Act. It monitors procedures to resolve conflicts of interest, reviews and approves the Bank’s Code of Conduct and obtains assurances that the Bank has processes in place to ensure adherence to the Code.

The GCRHRC also acts as the compensation committee of the Board. In this capacity, the GCRHR Committee is responsible for advising the Board on succession planning, compensation and human resources policies and practices. The GCRHRC provides its recommendation to the Board for compensation of the CEO in light of the evaluation of his performance against approved goals and objectives relevant to his compensation. The GCRHRC annually reviews executive talent development strategies, succession plans for key senior leadership roles and readiness of the Bank’s executive talent to deliver the Bank’s strategic goals. In addition, the GCRHRC makes recommendations to the Board on the compensation of senior management and the compensation of directors.

Finally, the GCRHRC oversees compliance activities of the Bank ensuring that management has in place policies, processes, and procedures to ensure the Bank remains in compliance with the regulatory requirements affecting it. The GCRHRC regularly reviews and recommends to the Board for approval the Bank's significant compliance policies including but not limited to the Regulatory Compliance Policy, the Anti-Money Laundering Policy and the Privacy Policy. The GCRHRC also assists the Board in its oversight of the effectiveness and independence of the Bank's Compliance function.

Audit Committee

Management of the Bank is responsible for the preparation, presentation, and integrity of the financial statements and for maintaining appropriate accounting and financial reporting principles, policies, internal controls, and procedures designed to ensure compliance with accounting standards and applicable laws and regulations. The external auditor is responsible for planning and carrying out, in accordance with professional standards, an audit of the annual financial statements. The AC's purpose is to review the adequacy and effectiveness of these activities and to assist the Board in its oversight of:

- The integrity of the Bank's financial statements;
- The external auditors' qualifications, independence, and performance;
- The effectiveness and independence of the Bank's Internal Auditor; and
- The adequacy and effectiveness of financial controls.Each member of the Audit Committee must be independent and "financially literate" within the meaning of the rules of the Canadian Securities Administrators ("CSA") relating to audit committees. In accordance with applicable regulatory requirements at least one member must have accounting or related financial management expertise, as the Board interprets such qualification in its business judgment.

Risk Committee

The Risk Committee is responsible for overseeing risk management at the Bank, balancing risks and rewards while ensuring that management has in place policies, processes and procedures designed to identify and effectively manage the significant capital, liquidity, credit and operational risks to which the Bank is exposed. Annually, the RC reviews and recommends to the Board for approval the Bank's Risk Appetite Statement and other key risk related policies involving capital, liquidity, credit and operational risk matters. The RC also assists the Board in its oversight of the effectiveness and independence of the Bank's risk management function.

Credit Review Committee

The Credit Review Committee adjudicates all credit transactions outside of the limits delegated to management of the Bank and within the authorities granted to the CRC by the Board and monitors the portfolio.

The Board has delegated day-to-day responsibility for the execution of the Bank's operating and strategic plan to the CEO. Such delegation ensures a clear separation between the roles and responsibilities of the Board and Senior Management that fosters an environment that is open, transparent, and accountable. The CEO functions within a mandate approved annually by the Board and within limits set out in various documents including the Delegated Lending Authority, Delegated Spending Authority and Banking Resolution.

Management Level Committees:

Senior Management Committee ("SMC")

The SMC is the senior leadership team of the Bank responsible for the day-to-day management of the Bank and achievement of organizational objectives in accordance with Board approved operating and strategic plans. The SMC is composed of the CEO, and direct reports and heads of the control functions. The SMC works with the Board to assist it in defining organizational objectives, setting plans, strategy, structure and significant policies.

Management Committees

There are four Management Committees established by the CEO for managing the significant risks inherent to the Bank, which are the Credit Committee, Operational Risk Committee, Compliance Committee and Asset Liability Management Committee ("ALCO"). These committees operate within a Mandate approved by the CEO. Their purpose is to provide support to the CEO in executing his mandate, ensure senior management is kept informed of and aware of the status of each of the subject areas, to act to close gaps and in some instances make decisions that are beyond the limits set for management by the CEO or Credit Committee. These committees hold regular monthly meetings and on an ad hoc basis as situations arise. Generally, the mandates of the various committees are as follows:

Credit Committee	Oversees the performance of the credit portfolio, monitor its results and ensure they are within limits and the Board's Risk Appetite. The Credit Committee also meets to approve specific credits that exceed management's individual approvals.
Operational Risk Committee	Responsible for overseeing the operational risk of the Bank. The committee is also responsible for overseeing the IT and Cyber function and its activities.
ALCO	Meets weekly to discuss pricing issues and monthly to discuss broader issues of balance sheet management, capital, liquidity, business trends and other subjects included in its mandate.
Compliance Committee	Receives reports from the CCO on compliance with all legal and regulatory requirements imposed by various governments, governmental agencies and regulatory bodies having jurisdiction over the affairs of the Bank.

Capital Structure and Capital Adequacy

The Board has developed and approved a Capital Management Policy ("CMP") in accordance with the Board-approved RAS. The CMP addresses minimum regulatory capital requirements as prescribed by regulators and internal capital targets as per the RAS, which allows for the appropriate allocation of capital to meet the Bank's strategic goals. The CMP dictates that adequate capital be maintained by the Bank.

Adherence to the CMP ensures that the Bank has sufficient capital to maintain its operations based on current activities, expected future business developments and the possibility of various disruptive or adverse scenarios based on the Bank's stress testing program. Such stress testing scenarios include periods of economic downturn and/or asset re-pricing. In addition, in accordance with the Bank's annual strategic planning, a 3-year forecast is prepared and provides guidance as to the type and extent of capital that will be required over the forecast period.

The overall objective of capital management is to ensure that the Bank has sufficient capital to maintain its operations based on current activities and expected business developments in the future and to provide a return to its shareholders commensurate with the risk of the business.

The Bank's ALCO ensures adherence to the CMP on at least a monthly basis and the RC monitors capital management in accordance with the CMP.

The Bank uses the annual Internal Capital Adequacy Assessment Process ("ICAAP") to determine the quantity and quality of capital to conduct its business activities. In preparing the ICAAP, the high-risk areas established in the Enterprise Wide Risk Management Framework ("ERF") and the RAS are subject to stress testing which incorporates assumptions established in the annual strategic planning process. The results of the stress tests help to determine the quantum of capital required to enable management and the Board to set capital levels appropriate with the RAS. The RC is responsible for reviewing capital management plans recommended by management. The ICAAP is reviewed by the RC and approved by the Board.

The Bank's capital resources consist of common shares. As at December 31, 2022, the Bank had 165,112,515 common shares issued and outstanding.

The Bank's regulatory capital requirements are specified by OSFI guidelines. These requirements are consistent with the framework of risk-based capital standards developed by the BCBS and are referred to as Basel III. The Bank complies with Basel III capital requirements as required by OSFI.

The Bank's capital structure, risk-weighted assets and capital and leverage ratios, as of December 31, 2022 are detailed in the tables below.

	All-in				
(in thousands of $ except percentage amounts)	**31-Dec-21**	**31-Mar-22**	**30-Jun-22**	**30-Sep-22**	**31-Dec-22**
Common Equity Tier 1 capital: instruments and reserves					
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	131,486	131,486	131,486	131,486	131,486
Retained earnings (deficit)	(45,772)	(46,971)	(48,181)	(50,430)	(53,291)
Accumulated other comprehensive income (loss)	1	(3)	(166)	(212)	(191)
Common Equity Tier 1 capital before regulatory adjustments	**85,715**	**84,512**	**83,139**	**80,844**	**78,004**
Total regulatory adjustments to Common Equity Tier 1	(275)	(263)	(247)	(242)	(224)
Common Equity Tier 1 capital (CET1)	**85,440**	**84,249**	**82,892**	**80,602**	**77,780**
Additional Tier 1 capital (AT1)	-	-	-	-	-
Tier 1 capital (T1 = CET1 + AT1)	**85,440**	**84,249**	**82,892**	**80,602**	**77,780**
Tier 2 capital (T2)	0	0	0	0	0
Eligible Collective Allowance (ECA)	499	499	499	499	582
Total capital (TC = T1 + T2 + ECA)	**85,939**	**84,748**	**83,391**	**81,101**	**78,362**
Total Risk Weighted Assets					
Total risk weighted assets	**286,449**	**286,984**	**286,006**	**293,019**	**291,986**
Capital ratios					
Common Equity Tier 1 (as percentage of risk weighted assets)	29.83%	29.36%	28.98%	27.51%	26.64%
Tier 1 (as a percentage of risk weighted assets)	29.83%	29.36%	28.98%	27.51%	26.64%
Total capital (as a percentage of risk weighted assets)	30.00%	29.53%	29.16%	27.68%	26.84%

Risk-Weighted Assets

The Bank's risk-weighted assets include all on-balance sheet assets weighted for the risk inherent in each type of asset, an operational risk component based on a percentage of average risk-weighted revenues and a market risk component for off-balance sheet derivative financial instruments. The bank follows the Basel II standardized approach for credit risk for all on-balance sheet assets and the basic indicator approach for operational risk.

The Bank's investment securities may consist of bank notes, government and provincial debt securities and corporate debt securities. The Bank can only invest in securities with approved counterparties with DBRS Morningstar short-term issue credit rating ranging from R1-low to R1-high and their equivalents. Investment securities have risk-weightings ranging from 0% to 50% based on their credit rating. Loans receivable consists of residential mortgages with risk weighting of 35%, secured loans with an average risk weighting of 86.6% and commercial mortgages with a risk weighting of 100%. All other assets are risk-weighted at 100%.

The Bank's risk-weighted assets are as shown below.

	(in $ thousands)									
	31-Dec-21		31-Mar-22		30-Jun-22		30-Sep-22		31-Dec-22	
	Gross Exposure	**Risk Weighted Assets**	**Gross Exposure**	**Risk Weighted Assets**	**Gross Exposure**	**Risk Weighted Assets**	**Gross Exposure**	**Risk Weighted Assets**	**Gross Exposure**	**Risk Weighted Assets**
Deposits with regulated financial institutions	43,297	10,794	61,457	14,294	47,407	11,219	63,921	15,666	37,992	9,877
Securities	20,302	2,000	40,118	1,999	42,134	0	41,931	0	76,938	0
Residential mortgages	270,481	96,038	296,403	105,113	349,908	123,812	366,293	128,004	392,760	137,267
Commercial mortgages	70,148	70,149	59,136	59,137	61,517	61,518	61,597	61,597	62,655	62,655
Secured loans	98,699	86,303	95,944	84,226	86,725	73,884	83,329	71,955	74,966	64,947
Other assets	3,840	3,801	3,537	4,365	3,607	4,106	2,976	3,475	3,600	4,201
Off-balance sheet exposure	10,464	8,541	11,424	8,345	8,581	1,192	7,996	900	7,130	415
Total credit risk	517,231	277,626	568,019	277,479	599,879	275,731	628,043	281,597	656,040	279,362
Operational risk	0	8,823		9,505		10,275		11,422		12,624
Total risk weighted assets	**517,231**	**286,449**	**568,019**	**286,984**	**599,879**	**286,006**	**628,043**	**293,019**	**656,040**	**291,986**

Leverage Ratio

The Bank fully applies the Basel III deductions to calculate the leverage ratio as per OSFI's Leverage Requirements Guideline. The table below details the Bank's leverage ratio position under Basel III leverage requirements as at December 31, 2022.

	(in thousands of $ except percentage amounts)	31-Dec-21	31-Mar-22	30-Jun-22	30-Sep-22	31-Dec-22
On-balance sheet exposures						
1	On-balance sheet assets - for purposes of the Leverage Ratio	507,043	556,858	591,544	620,290	649,153
4	Asset amounts deducted in determining Basel III "all-in" Tier 1 capital	(275)	(263)	(246)	(243)	(224)
5	**On-balance sheet assets - excluding derivatives and SFTs**	506,767	556,595	591,298	620,047	648,928
Derivative exposures						
6	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	-	-	-	-	-
7	Add on amounts for PFE associated with all derivative transactions	-	-	-	-	-
11	**Total derivative exposures**	-	-	-	-	-
Securities financing transaction (SFTs) exposures						
16	**Total SFTs exposures**	-	-	-	-	-
Other off-balance sheet exposures						
17	Off-balance sheet exposure at gross notional amount	50,555	50,749	51,744	54,230	59,449
18	(Adjustments for conversion to credit equivalent amounts)	(40,092)	(39,326)	(43,163)	(46,234)	(52,319)
19	**Off-balance sheet items** (sum of lines 17 and 18)	10,464	11,424	8,581	7,996	7,130
Capital and total exposures						
20	**Tier 1 capital**	**85,440**	**84,249**	**82,892**	**80,602**	**77,780**
21	**Total exposures** (sum of lines 3,11,16, and 19)	**517,231**	**568,019**	**599,879**	**628,043**	**656,058**
Leverage ratios						
22	**Basel III leverage ratio**	**16.52%**	**14.83%**	**13.82%**	**12.83%**	**11.86%**

The Leverage Ratio is a non-risk ratio intended to act as a supplementary measure to the risk-based capital requirements. The Leverage ratio is calculated by dividing Tier 1 capital by total exposure.

Risk Management

Effective risk management is fundamental to the success of WealthONE and is recognized as a core component of the Bank's overall approach to strategy management. The Bank has a strong, disciplined risk management culture where risk management is a responsibility shared by the Bank's Board of Directors, management and employees.

The primary goals of the Enterprise-Wide Risk Management Framework ("ERF") are to ensure that the outcomes of risk taking activities are consistent with the Bank's strategies and risk appetite and that there is an appropriate balance between risk and reward in order to maximize the Bank's profitability. The Bank's ERF provides the foundation for achieving these goals.

This framework is subject to constant evaluation to ensure that it meets the challenges and requirements of the markets in which the Bank operates, including legislative and regulatory standards as well as industry best practices.

Effective risk management requires clear articulation of the Bank's risk appetite and how the Bank's risk profile will be managed in relation to that appetite. The Bank's Risk Appetite Statement ("RAS") is the primary means used to communicate how the Bank defines risk and determines the risks it is willing to take. In defining its risk appetite the Bank takes into account its vision, strategy and capacity to bear risk. The guiding principles for the Bank's RAS are as follows:

The Bank takes on risks required to meet its strategic objectives, provided those risks:

- Fit the Bank's strategy and can be managed and understood;
- Do not expose the Bank to any significant single loss events; and
- Do not risk harming the Bank's reputation.

The following risk categories are generally inherent to banks as regulated financial intermediary:

Strategic Risk

Generally, strategic risk is an inherent risk for any commercial enterprise and can be described as risk stemming from the selection of strategies that may be poorly conceived, or inappropriate for the organization, or where the enterprise is unable to execute its strategy. Strategic Risk for a bank may result in unexpected losses arising from cost overruns, unexpected losses or missed revenue expectations and in turn may lead to Capital Risk as described above. Further, the consequences of strategic risk may lead to a bank incurring any or all of the other risks described herein.

Funding and Liquidity Risk

Funding and liquidity risk can occur due to the uncertain timing of cash flows and the Bank's reliance on the issuance of deposits as its major source of funding. The Bank has created policies and procedures to ensure that cash flows from different funding sources are forecasted and monitored on a timely basis. It also maintains sufficient liquid assets as a buffer to fund its loan commitments, operations, deposit maturities and interest payments should an unexpected funding shortfall arise.

The Bank has historically sourced around 80% of its deposits through deposit brokers, with the remainder originated directly to customers. Currently, over 90% of all deposits are CDIC-insured. The Bank's access to deposits depends upon several factors including access to third-party deposit platforms, interest rates offered by competing lenders, economic conditions and regulatory requirements. The broker network is expected to have more than enough liquidity to meet the Bank's funding needs for its current operations. The Bank maintains internal concentration limits around both individual brokers and depositors, which helps to ensure that the Bank maintains a well-diversified deposit origination platform across multiple channels.

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

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

Liquidity risk is managed daily through measuring and monitoring the Bank’s liquidity position, and regular liquidity forecasting. Monitoring includes maturity gap analysis, survival horizons and stress testing. Even with the Bank’s underlying funding and liquidity risk processes 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.

Credit Risk

Credit risk for a bank can be defined as the risk that a borrower to whom the bank has lent money is unable or unwilling to repay all or part of its loan. A bank incurs credit risk through its loan origination and investment activities. Excessive credit losses can lead to loss of capital and expose the bank to capital risk.

Interest Rate Risk

The Bank’s operating margin is primarily derived from the spread between interest earned on the investment and lending portfolio, and the interest paid on the debt and deposits used to fund the portfolio. Risk arises from the Bank’s assets and liabilities having mismatched re-pricing dates, or being referenced to different underlying instruments. The Bank has adopted practices to manage the spread between interest earned on assets and interest paid on the instruments used to fund them.

The Bank has defined its appetite for interest rate risk limit as follows:

- Economic Value - 10% loss of Regulatory Capital for a 200 bps parallel shock to interest rates
- Net Interest Income Sensitivity - 20% loss of annualized net interest income for a 100 bps parallel shock to interest rates.

The table below details the results of sensitivity analysis of interest rate increases and decreases during the 12-month period beginning on December 31, 2022. The results of the model are based on several assumptions which can differ as actual rate changes occur; hence actual results could vary from these modeled results.

in thousands of $ except percentage amounts	Increase in Interest Rates	Decrease in Interest Rates
100 basis point parallel shift		
Impact on net interest income	1,116	(1,116)
impact on financial position (FP)	642	(678)
FP as a % of shareholders' equity	0.82%	-0.87%
200 basis point parallel shift		
Impact on net interest income	2,232	(2,232)
Impact on financial position (FP)	1,249	(1,395)
FP as a % of shareholders' equity	1.60%	-1.79%

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal and information technology risk, including cybersecurity risk.

The Bank has three lines of defense to safeguard against operational risk. The first line of defense is at the transaction level where the Bank's business units are responsible for ensuring that appropriate internal controls are in place and operating effectively. The Bank's Compliance Department and Risk Management Department serve as the second line of defense, where they provide an enterprise-wide view of specific risks and independently review and challenge the business units' risk and control activities. The Bank also has an Internal audit function (outsourced to MNP LLP) as the third line of defense. Operational controls are reviewed and/or audited using a risk-based approach and the results of their design and effectiveness are reported to management and the Board.

The Bank's primary tool for mitigating operational risk exposure is a robust internal control environment, which includes the implementation of policies and procedures, the employment of knowledgeable and experienced senior managers, segregation of duties among employees and appropriate training of all employees. All key controls are subject to ongoing testing and review to ensure they effectively mitigate the Bank's operational risk exposures.

The Bank uses the Basic Indicator Approach to quantify its exposure to operational risk in its calculation of risk-weighted assets. Operation risk as at December 31, 2022 and for the last four quarters are shown in the table under the Risk-Weighted Assets section above.

Information Technology Risk

Information Technology risk arises for a bank as a result of vulnerabilities to computer systems and information management. Information Technology Risk may result in losses for the bank or result in the bank incurring other technology related risks. There are many types of Information Technology risk. However, the most common types of Information Technology Risks for a bank are:

- **Information Management Risk**: Information management risk may occur where information is inauthentic, inappropriately classified, or not properly maintained. Information management failures may result in legislative consequences.
- **Information Technology Risk**: Information technology risk for a bank can be defined as the bank's vulnerability to the disruption of its computer systems.

Cyber Risk

Cyber risk can be defined as the risk of theft or disruption of its computer systems and/or sensitive bank and customer information by criminals and others who gain unauthorized access to the bank's computer systems. These cyber-attacks could lead to loss of reputation or claims by clients.

Climate Risk

Climate risk can be defined as the risk resulting from climate change and affecting natural and human systems. The typical approach in dealing with climate related loss exposure focuses on reducing the vulnerability associated with climate risk by incorporating climate sensitive decision making in the risk management process. The frequency and intensity of climate related events have notably increased recently.

Reputation Risk

A bank is susceptible to reputation risk primarily as the result of the occurrence of another risk type event or events as described herein such that the bank loses the confidence of its customers, shareholders, regulators and other stakeholders to the point that it impacts normal operations or financial loss.

Regulatory Compliance Risk

Regulatory compliance risk arises from a financial institution's non-compliance with applicable laws, rules, regulations and prescribed standards in any jurisdiction in which the Bank operates. The Compliance Department keeps the management team and the Board informed of new regulations, guidelines and changes to existing regulatory requirements. The Bank addresses any changes in regulatory requirements in a timely manner to ensure it is compliant with new applicable regulations.

Management monitors and is aware of the potential negative effects of media and reputation risk exposure. The Bank has implemented complaint and incident resolution processes to mitigate these potential risks.

Remuneration

The Bank's compensation program is governed by its Compensation Policy, which is reviewed regularly by the GCRHRC to ensure alignment with the Bank's objectives and compliance with OSFI Corporate Governance Guideline and Financial Stability Board's ("FSB") Principles for Sound Compensation and Implementation Standards. The framework of the compensation program for senior management is comprised of base salary, short-term cash incentives and a long-term share option plan. Total compensation reflects the senior individual's: (a) level of responsibility, (b) skill and experience, (c) market value of the position and (d) overall performance, individually, by their business unit and the Bank as a whole. Roles are reviewed against market, internal comparators and external comparators. Base salary is reviewed annually and as required by market conditions.

Short Term Incentive Plan

The Bank's short term incentive plan ("STIP") is designed to motivate management to meet the Bank's annual business and financial objectives. Every fiscal year, the performance of each individual is measured against the achievement of specific financial and performance goals which may vary from year to year. The STIP program is based on performance against various different performance measures that are designed to focus both management and staff on key objectives and drivers of the business as well as value creation over both the short and long term.

The STIP is set annually based on a scorecard of financial and non-financial objectives which must be achieved in order to be eligible for a payout. Short-term incentive award targets are determined based on specific factors including role complexity, scope and impact of the role over a 12-month period. Staff with a primary responsibility of underwriting credit do not participate in the STIP program. All participating staff have a short-term cash incentive target that is expressed as a percentage of base salary determined by position and level within the organization. Depending on actual performance relative to set performance targets, cash payouts range from zero to the maximum target within each range. The base STIP targets range from 50-100% of base salary, with an ability to increase up to 75%-150% upon the achievement of stretch targets for management members.

Long Term Incentive Plan

The Bank's Share Option Plans ("SOP") are designed to reward performance for directors and senior management to increase shareholder value. Bank directors and executives participate in the SOP programs which award long term incentives in the form of stock options. The award of grants that a director or executive is eligible to receive is determined by the GCRHRC on an annual basis.

The table below provides director and executive compensation and other emoluments expensed for the year ended December 31, 2022.

	For the year ended December 31,			
(in thousands of $)		2022		2021
Short-term employee benefits	$	2,205	$	1,674
Termination benefits		-		63
Stock based compensation		960		955
Total Compensation	**$**	**3,165**	**$**	**2,692**

Residential Mortgage B-20 Disclosures

The table presented below provides disclosures in accordance with the requirements of OSFI Guideline B-20, Residential Mortgage Underwriting Practice and Procedures. The following table show the composition of the residential mortgage portfolio and average loan-to-value ("LTV") ratio by geographic region and insured type. The overall LTV, which measures the outstanding mortgage balance as a percentage of the most recent appraised value of the property, at 63.52% indicates significant collateral which would mitigate the risk from economic downturns.

All amounts, other than percentages, are in $ millions.

Insured vs Uninsured Residential Mortgage Portfolio

Type	Principal Balance Ontario		Principal Balance British Columbia		Principal Balance Rest of Canada		Principal Balance Total	
Insured	$0.61	0.15%	$0.00	0.00%	$0.00	0.00%	$0.61	0.15%
Uninsured	$302.12	76.92%	$59.59	15.17%	$30.44	7.75%	$392.15	99.85%
Total	**$302.72**	**77.08%**	**$59.59**	**15.17%**	**$30.44**	**7.75%**	**$392.76**	**100.00%**

Average LTV of Residential Mortgage Portfolio

Type	Ontario	British Columbia	Rest of Canada	Total
Insured	84.41%	0.00%	0.00%	84.41%
Uninsured	63.44%	58.11%	69.41%	63.49%
Total	**63.47%**	**58.11%**	**69.41%**	**63.52%**

Average Amortization of Total Residential Mortgage Portfolio

Type	<= 20 years	> 20 to <= 25 years	> 25 to <= 30 years	> 30 years	Total
Total	**2.35%**	**11.11%**	**71.19%**	**15.35%**	**100.00%**

Economic Stress Test

The Bank conducts regular stress testing of its residential mortgage portfolio to measure the impact of a severe economic downturn. Negative implications are managed through strong credit history, conservative LTVs, applicant net worth and prudent underwriting standards and practices.

Stress testing is conducted utilizing a model and incorporates several assumptions. The primary assumptions used were:
* Canadian residential real estate values decline by 30%
* Borrowers default on their mortgage loans at a rate 3 times the expected rate

As of December 31, 2022, the stress test results indicated a potential loss of **$4.06** million**.**