Regulatory Disclosures

December 31, 2019

Scope

This Regulatory Disclosures Report provides the following qualitative and quantitative disclosures relating to Wealth One Bank of Canada (the Bank):

- Disclosures related to the Bank's lending portfolio, some of which relate to disclosure requirements outlined in Guideline B-20, 'Residential Mortgage Underwriting Practices and Procedures' issued by the Office of the Superintendent of Financial Institutions (OSFI); and

- The Bank's Basel III Pillar 3 regulatory capital disclosures.

The amounts disclosed in this document are based on the Bank's financial statements as at December 31, 2019, which reflect its financial position and results of operations. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), including the accounting requirements specified by OSFI, and reflect, where necessary, management's best estimates and judgments. This report is unaudited.

Overview

Wealth One Bank of Canada is a federally regulated Schedule I chartered bank and is under regulatory supervision by OSFI. Public operations commenced in September 2016.

The Bank specializes in residential/commercial mortgages, loans secured by the cash surrender value of insurance policies and deposit products. The Bank currently serves customers primarily in Ontario and British Columbia. It does not offer products or services in foreign currency or jurisdictions.

Governance

CORPORATE GOVERNANCE

The Bank maintains a rigorous corporate governance structure. It is governed through its Board of Directors (Board), which is comprised of nine directors, of whom five are independent directors. The committees of the Board are comprised of independent directors and their responsibilities are described below.

Governance, Conduct Review and Human Resources Committee (GCRHRC)

- Governance, board evaluation and compensation matters
- Conflicts of interest and Conduct Review, code of conduct and regulatory compliance
- Human resources, performance management and compensation

Audit and Risk Committee (ARC)

- Financial management, reporting and internal and external auditor appointment and evaluation
- Risk management policy, effectiveness and reporting, including definition of the Risk Appetite Statement

The Board and both of its committees hold meetings at least four times annually.

Auditor Assessment

At least annually, the Audit and Risk Committee evaluates the performance, qualifications, skills, resources and independence of the external auditor, including the lead partner, in order to support the Board Directors in reach its recommendation to appoint the external auditor. KPMG LLP has been appointed as the independent external auditor for the year ended December 31, 2019, in accordance with the recommendation by the Audit and Risk Committee.

OPERATIONS GOVERNANCE

Management oversight is effected through the committees listed below:

Senior Management Committee (SMC) which has the following responsibilities:

- Developing business strategy
- Developing operating and business plan
- Executing and monitoring of banking operations and administration of the Bank
- Overseeing risk management

Asset Liability Committee (ALCO) which has the following responsibilities:

- Overseeing management of liquidity risk, interest rate risk, investment risk, and other aspects of Asset Liability Management
- Ensuring that the Bank has the appropriate quantity and quality of capital
- Monitoring pricing and treasury activities

Credit Committee (CC) which has the following responsibilities:

- Ensuring compliance with operational mandates, policies and procedures, and governing legislation
- Providing guidance on the methodology to continually identify, define, assess, manage, and report credit risk and exposure
- Planning, directing, monitoring and controlling the impact of the Bank's risks arising from its operations
- Final approval of large credit exposure in accordance with delegation of authority

The Bank also has oversight functions which include an Internal Auditor (outsourced to MNP LLP), a Chief Risk Officer, a Chief Compliance Officer and a Chief Anti-Money Laundering Officer who report directly to the CEO and Board committees. The Board seeks to achieve long-term sustainable risk adjusted growth to ensure the health of the Bank and the stability of earnings while protecting the Bank's reputation and the interests of its depositors, customers and investors.

The Internal Auditor assists management in accomplishing its objectives by bringing a systematic, objective and disciplined approach to evaluate and improve the effectiveness of the Bank's risk management, control and governance processes.

Capital Structure and Capital Adequacy

The Board has developed and approved a Capital Management Policy (CMP) in accordance with the Board-approved Risk Appetite Statement (RAS). The CMP addresses minimum regulatory capital requirements as prescribed by regulators and internal capital targets as per the Board-approved 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 ARC 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 (EWRMF) and Risk Appetite Statement (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 ARC is responsible for reviewing capital management plans recommended by management. The ICAAP is reviewed by the ARC and approved by the Board.

The Bank's capital resources consist of common shares and subordinated convertible notes. As at December 31, 2019, the Bank issued 102,921,436 common shares in the amount of $82.2 million and has issued $5 million of subordinated convertible notes.

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 Basel Committee on Banking Supervision 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, capital and leverage ratios, as of December 31, 2019 are detailed in the tables below.

	All-in				
	Dec-18	**Mar-19**	**Jun-19**	**Sep-19**	**Dec-19**
Common Equity Tier 1 capital: instruments and reserves (in $000)					
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	63,699	70,189	70,200	70,200	82,200
Retained earnings (deficit)	(29,633)	(31,562)	(33,274)	(34,842)	(35,775)
Accumulated other comprehensive income/ (loss)	7	(3)	(1)	0	4
Common Equity Tier 1 capital before regulatory adjustments	**34,043**	**38,624**	**36,925**	**35,358**	**46,429**
Total regulatory adjustments to Common Equity Tier 1	(343)	(298)	(241)	(298)	(230)
Common Equity Tier 1 capital (CET1)	**33,700**	**38,326**	**36,684**	**35,060**	**46,199**
Additional Tier 1 capital (AT1)	0	0	0	0	5,000
Tier 1 capital (T1 = CET1 + AT1)	**33,700**	**38,326**	**36,684**	**35,060**	**51,199**
Tier 2 capital (T2)	-	-	-	-	-
Eligible Collective Allowance	-	-	-	499	499
Total capital (TC = T1 + T2)	**33,700**	**38,326**	**36,684**	**35,559**	**51,698**
Total Risk Weighted Assets ($000)					
Total risk weighted assets	**127,801**	**131,164**	**139,875**	**138,016**	**162,364**
Capital ratios					
Common Equity Tier 1 (as percentage of risk weighted assets)	26.37%	29.22%	26.23%	25.40%	28.45%
Tier 1 (as a percentage of risk weighted assets)	26.37%	29.22%	26.23%	25.40%	31.53%
Total capital (as a percentage of risk weighted assets)	26.37%	29.22%	26.23%	25.76%	31.84%

During the period ended December 31, 2019, the Common Equity Tier 1, Tier 1 and Total Capital ratios remain above OSFI’s stated minimum capital ratios.

Risk-Weighted Assets

The Bank's risk-weighted assets (RWA) 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 uses the standardized approach for credit risk for all on-balance sheet assets and 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 the securities with approved counterparties with 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, consisting of residential mortgages with risk weighting of 35%, secured loans with risk weighting of 75% and commercial mortgages with a risk weighting of 100%. All other assets are risk-weighted at 100%.

The following table provides a breakdown of credit and operational risk exposures as of December 31, 2019.

	Dec-18		**Mar-19**		**Jun-19**		**Sep-19**		**Dec-19**	
$000s	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	7,507	1,742	4,533	1,159	9,231	2,913	6,669	1,492	18,357	4,213
Securities	31,772	7,686	29,964	6,274	6,245	1,189	7,993	1,989	16,097	3,160
Residential mortgages	197,644	68,257	197,477	69,117	206,526	72,285	192,118	67,242	195,804	68,532
Commercial mortgages	28,517	28,517	30,566	30,566	35,282	35,282	35,366	35,366	44,112	44,113
Secured loans	23,059	17,294	23,822	17,867	29,519	22,140	34,756	26,067	47,268	35,451
Other assets	2,823	2,480	3,100	3,100	2,812	2,812	2,399	2,399	3,156	3,156
Total credit risk	**291,322**	**125,976**	**289,462**	**128,083**	**289,615**	**136,621**	**279,301**	**134,555**	**324,795**	**158,625**
Operational risk	146	1,825	246	3,081	260	3,254	277	3,461	299	3,739
Total RWA	**291,468**	**127,801**	**289,708**	**131,164**	**289,876**	**139,875**	**279,578**	**138,016**	**325,095**	**162,364**

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 of December 31, 2019.

		Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
On-balance sheet exposures (in $000)						
1	On-balance sheet assets - for purposes of the Leverage Ratio	288,596	289,490	289,386	279,057	321,830
2	Asset amounts deducted in determining Basel III "all-in" Tier 1 capital	(343)	(298)	(241)	(298)	(230)
3	**On-balance sheet assets - excluding derivatives and SFTs**	288,253	289,192	289,145	278,759	321,600
Derivative exposures (in $000)						
4	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	-	-	-	-	-
5	Add on amounts for PFE associated with all derivative transactions	-	-	-	-	-
11	**Total derivative exposures**	-	-	-	-	-
Securities financing transaction (SFTs) exposures (in $000)						
16	**Total SFTs exposures**	-	-	-	-	-
Other off-balance sheet exposures (in $000)						
17	Off-balance sheet exposure at gross notional amount	12,869	13,210	16,568	15,826	26,233
18	(Adjustments for conversion to credit equivalent amounts)	(10,469)	(10,701)	(13,632)	(12,936)	(20,101)
19	**Off-balance sheet items** (sum of lines 17 and 18)	2,400	2,509	2,936	2,890	6,132
Capital and total exposures (in $000)						
20	**Tier 1 capital**	**33,700**	**38,326**	**36,684**	**35,060**	**51,199**
21	**Total exposures** (sum of lines 3,11,16, and 19)	**290,653**	**291,701**	**292,081**	**281,649**	**327,732**
Leverage ratios						
22	**Basel III leverage ratio**	**11.59%**	**13.14%**	**12.56%**	**12.45%**	**15.62%**

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. The Bank's Leverage Ratio was also above the minimum assigned to the Bank by OSFI.

Risk management is the subject of the Bank's Enterprise Wide Risk Management Framework (EWRMF). Its goals 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 EWRMF provides the foundation for achieving these goals.

The EWRMF helps ensure effective reporting and compliance with standards, while enabling the Bank to manage uncertainty and associated risk and opportunity. A component of the EWRMF is the Risk Appetite Statement (RAS), which defines the targets and absolute limits of risk that the Bank is willing to accept in its operations. Both the EWRMF and the RAS are reviewed by ARC and Board approved based upon the recommendation of the ARC.

The ARC is responsible for overseeing the types of risk to which the Bank may be exposed, and the techniques and systems used to identify, measure, monitor, report on and mitigate those risks.

The Bank does not maintain a trading portfolio and has minimal market risk from its high-quality liquid asset portfolio. Further, the Bank does not have any equity portfolio or trading book and is not exposed to equity risk.

The Bank's business EWRMF and the scope of its operations define the most material risks faced as described below.

Strategic Risk

The Bank is one of Canada's newest financial institutions and has identified a strategic niche that it believes is underserved. The Bank believes that it can establish a competitive advantage through pursuing its business model, operating practices and marketing network.

Funding and Liquidity Risk

Funding and liquidity risk can occur due to the uncertain timing of cash flows and the Bank's reliance on raising funds by the issuance of deposits. The Bank has various funding sources and has created policies and procedures to ensure that cash flows are accurately predicted and monitored. It also maintains sufficient liquid assets to fund its anticipated loan commitments, operations, deposit maturities and interest payments should a shortfall arise.

Credit Risk

Credit risk is the potential for financial loss if the assets as currently reflected on the Bank's balance sheet become impaired and not fully recoverable. This can result from a significant and persistent drop in the value of assets supporting the loan/mortgage and/or customers choosing not to repay their loan/mortgage for an extended period. To mitigate risk, the Bank has developed underwriting criteria which provide reasonable loan to value ratios for a borrower while seeking to provide assurance that the value of the related asset and/or financial capacity of a borrower is sufficient to repay the loan/mortgage. The Bank uses the Standardized Approach to measure credit 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 target appetite for interest rate risk 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 200 bps parallel shock to interest rates.

The Bank recognizes that managing interest rate risk is a vital component of an effective treasury risk management program. However, during the start-up phase of the Bank, when the Bank's interest earning portfolio is modest, the Net Interest Income Sensitivity test is less meaningful. As a result, the Bank has determined that the Net Interest Income Sensitivity Risk Metric will be applied when forecast net interest income is equal to or greater than $5 million annually.

As at December 31, 2019, the impact of a 200 bps parallel shock to interest rates was as follows:

	Increase of 200 bps	Decrease of 200 bps
Economic Value (as a % of regulatory capital)	(2.77) %	3.04%
Net Interest Income Sensitivity (as a % of net interest income)	(21.67) %	21.67%

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is the chance of unexpected income losses or increased costs that may emerge from human, process or system failure and due to external developments. Operational risk includes legal risk and information technology risk, including cybersecurity risk.

The Bank has three lines of defense to safeguard the Bank against operational risk. The first line of defense from operational risk 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 also has a Compliance Department (second line of defense) which serves as independent challenge to the business units and whose function is to provides an enterprise-wide view of specific risk types, guidance and effective challenge to risk and control activities. The Bank also has an Internal audit function outsourced to MNP LLP (third line of defense), which audits the Bank using a risk-based approach. Internal audit reports the results of its assessment to management and the Board.

Our 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 training of all employees. All key controls are subject to ongoing testing and review to ensure they effectively mitigate our 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 is calculated as shown in the Risk Weighted Assets table on Page 6.

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 institution operates. The Bank addresses regulatory requirements in a timely manner to ensure it is compliant with new applicable regulations. The Compliance Department keeps the management team and the Board informed of new regulations, guidelines and changes to existing regulatory requirements.

Management 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. 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. Base salary reflects the senior individual's: (a) level of responsibility, (b) skill and experience, (c) market value of the position and (d) overall performance both individually and in their business unit. 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 drivers of the business as well as value creation over both the short and long term.

The STIP is a self-funded program with minimum financial threshold goals 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 a role over a 12-month period. 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 STIP targets range from 40-100% for management members.

Long Term Incentive Plans

The Bank's Share Option Plans (SOP) are designed to motivate directors and senior management and 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 to the right provides director and executive compensation and other emoluments expensed for the year ended December 31, 2019.

	$000s
Management Compensation	
Short-term employee benefits	$ 2,738
Termination benefits	103
Stock-based compensation	198
Total	**$ 3,039**

The table presented below provides reporting in accordance with the requirements of OSFI Guideline B-20 – Residential Mortgage Underwriting Practice and Procedures. The following table shows 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 60.79% indicates significant equity in the collateral which would mitigate the risk from economic downturns.
All amounts, other than percentages, are in $ millions.

Wealth One Bank of Canada

Residential Mortgage Public Disclosure

December 31, 2019

Insured vs Uninsured Total Residential Mortgage Portfolio

Type	Principal Balance Ontario		Principal Balance British Columbia		Principal Balance Rest of Canada		Principal Balance Outside of Canada		Principal Balance Total	
Insured	$2.19	1.50%	$0.36	0.69%	$0.00	0.00%	$0.00	0.00%	$2.55	1.29%
Uninsured	$144.16	98.50%	$51.64	99.31%	$0.00	0.00%	$0.00	0.00%	$195.80	98.71%
Total	$146.35	100.00%	$52.00	100.00%	$0.00	0.00%	$0.00	0.00%	$198.35	100.00%

Average LTV of Total Residential Mortgage Portfolio

Type	Ontario	British Columbia	Rest of Canada	Outside of Canada	Total
Insured	87.38%	94.00%	0.00%	0.00%	88.49%
Uninsured	59.67%	62.73%	0.00%	0.00%	60.36%
Combined	**60.13%**	**63.09%**	**0.00%**	**0.00%**	**60.79%**

Average Amortization of Total Residential Mortgage Portfolio

Type	<= 20 years	> 20 to <= 25 years	> 25 to <= 30 years	> 30 years	Total
Total	**1.57%**	**42.82%**	**55.61%**	**0.00%**	**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 mortgage insurance on loans in excess of 80% LTV and prudent underwriting standards and practices.

Stress testing is conducted utilizing a model and incorporates several assumptions. The primary assumptions are:
* 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, 2019, the stress test results indicated a potential loss of **$2.03 million.**