BRIDGEWATER BANK

Regulatory Disclosures
September 30, 2018

Contents

SCOPE of DISCLOSURE

This document is prepared in accordance with regulatory requirements of the Office of the Superintendent of Financial Institutions (OSFI). OSFI's public disclosure requirements are based on the Basel Committee of Banking Supervision (BCBS) Pillar 3 disclosure requirements. Additionally, OSFI has issued public disclosure requirements through Guideline B-20, Guideline B-6 and other guidelines.

The document contains information related to Bridgewater Bank's on-balance sheet items. All figures unless stated otherwise are in thousands of dollars, except for percentages. The information contained in this document has not been audited.

CORPORATE PROFILE

Bridgewater Bank (the Bank) is a federally chartered bank, regulated by OSFI. The Bank is owned by the Alberta Motor Association.

Specializing in residential mortgages and deposit products through a select network of brokers, the Bank serves customers across Canada, with the exception of Quebec. It does not offer home equity lines of credit (HELOC) loans nor does it operate or offer products or services in foreign jurisdictions. The Bank participates in the National Housing Authority (NHA) mortgage-backed securities (MBS) and Canada Mortgage Bond (CMB) programs.

CAPITAL

The Bank manages its capital under guidelines established by OSFI which are based on the BCBS' framework. The regulatory capital guidelines measure capital in relation to credit, market and operational risks. The Bank qualifies to use the standardized approach for the measurement of credit risk and the basic indicator approach for the measurement of operational risk.

The Bank's strategic objectives related to capital management are:

- to ensure there is sufficient capital in order to meet regulatory restrictions;
- to allow for asset accumulation to manage cash flow commitments under normal operating environments; and
- to develop and introduce new products and expand current offerings.

The Bank has various capital policies, procedures and controls which it utilizes to achieve these objectives.

	30-Sep-18	30-Jun-18	30-Sep-17
Capital:			
CET 1 capital	$ 86,264	$ 84,766	$ 75,495
Tier 1 capital	86,264	84,766	75,495
Total capital	110,264	114,766	105,495
Risk-weighted assets			
Credit risk	238,206	250,431	260,252
Operational risk	59,800	60,138	56,888
	$ 298,006	$ 310,569	$ 317,140
Capital ratios:			
CET 1	28.9%	27.3%	23.8%
Tier 1	28.9%	27.3%	23.8%
Total	37.0%	37.0%	33.3%
Leverage ratio	6.2%	6.0%	4.7%

Capital structure
The Bank's capital consists of common shares and subordinated debt.

Common shares
Common shares have voting rights. They are considered Common Equity Tier 1 (CET1) capital for capital adequacy requirements (CAR) as per OSFI guidelines.

Subordinated debt
The Bank has issued subordinated notes which are unsecured and subordinated to all other indebtedness of the Bank. The loan bears interest and matures July 2023. The subordinated debt automatically converts into common shares if OSFI deems common shares are needed to restore the Bank's viability or if a Canadian government injects capital into the Bank because it is deemed non-viable without the capital injection. The subordinated debt is considered Tier 2 non-viability contingent capital (NVCC) for CAR requirements.

RISK MANAGEMENT

Risk management governance structure
The Bank takes a prudent approach to managing risk inherent in the business segments within which it operates and ensures that it understands and limits the overall amount of risk in the bank. It achieves that by establishing a formal risk appetite statement. This statement is reviewed and adjusted annually.

The Board of Directors (the Board) have overall responsibility for the establishment and oversight of the Bank's risk appetite. The risk appetite statement sets out the overall risk capacity and risk appetite for the Bank, establishes measures and limits on risks and sets out the stress testing program. The Board reviews and approves key policies to enable effective monitoring of the Bank's significant risks. At least quarterly, a report on the key risks is presented to the Board and its committees for review and assessment.

The Bank employs the industry standard three lines of defence model which include risk management control functions, oversight committees and independent assurance. The Bank's risks include but are not limited to credit risk, interest rate risk, liquidity risk, operational risk and regulatory risk.

Credit Risk
Credit risk is the risk of loss resulting from the failure of a counterparty to honor its financial obligation. The Bank is exposed to credit risk through cash, restricted cash, amounts receivable, restricted investments, loans and derivative financial assets.

Credit risk management is a component of the risk appetite statement approved by the Board and the Risk Management Committee. The Assets and Liabilities Committee (ALCO) provides financial oversight over credit risk and ensures the Bank meets mortgage insurers' compliance standards. The ALCO reviews arrears and underwriting post assessment reporting, which is also communicated to the Risk Management Committee. Credit risk management over day to day operations is provided by the Credit Management Committee, including oversight of the geographic concentration. The lines of business are responsible for management of the Bank's credit risks in accordance with approved policies.

The Bank manages credit risk with respect to cash and restricted cash by holding currency with major Canadian banks. Restricted investments are invested in treasury bills, federal bonds and securities guaranteed by the Government of Canada. The Bank's loan portfolio is solely residential mortgages. Funded mortgages comply with the product and underwriting policies of the Bank and the mortgage insurers and property is held as collateral to mitigate the risk of loss.

In the event of an economic downturn, the Bank is well-positioned to continue mortgage lending, provide security and mitigate increasing risk. Compliance with the Canadian regulatory system ensures that extremely high-risk mortgages, such as sub-prime mortgages, are not made available. Besides mortgages that pose a higher risk, where the down payment is less than 20% of the mortgage, loans are insured against losses.

The Bank is also exposed to credit risk through contracts with third parties for mortgage insurance and derivatives utilized to manage interest rate risk. This counterparty credit risk is mitigated by:

- contracting with reputable organizations that have investment-grade credit ratings
- utilizing a number of different organizations, where possible, to minimize the impact of the risk of any one counterparty defaulting on its contractual obligations.

The Bank's total maximum credit exposure without taking account of any collateral held or other credit enhancements such as mortgage insurance, is the carrying value of the financial assets recorded on the statement of financial position in addition to credit commitments

Allowance for credit losses
The Bank maintains an allowance for credit losses which, in management's opinion, is adequate to absorb all losses related to loans that have occurred as a result of one or more loss events, whether detected or not, including accrued interest.

The Bank establishes allowances for credit losses based on a three-stage expected credit loss (ECL) impairment model:

- Stage 1 allowances on initial recognition based on a 12-month ECL;
- Stage 2 allowances if credit risk increases significantly relative to initial recognition based on a lifetime ECL; and
- Stage 3 allowances when a financial asset is considered credit-impaired, a loss allowance equal to lifetime ECL is recognized.

Stage 1 and Stage 2 allowances are held against performing loans; whereas, Stage 3 allowances are held against impaired loans.

There is objective evidence of impairment when there is reason to believe that a portion of the principal or interest cannot be collected, such as financial difficulties of the borrower or national or local economic conditions that correlate with arrears on the assets in the portfolio.

The Bank considers a mortgage as past due when a mortgagor has not made a payment as of its due date. The following provides aging information for loans that are past due but not impaired as well as impaired loans:

Residential mortgages	**30-Sep-18**	**30-Jun-18**	**30-Sep-17**
Past due but not impaired			
1-29 days	$ 17,131	$ 14,587	$ 17,780
30-59 days	9,952	10,146	4,691
60-89 days	5,739	2,472	3,161
Over 90 days	11,843	12,241	14,979
Total	$ 44,665	$ 39,446	$ 40,611
Impaired loans[1]	$ 14,261	$ 14,011	$ 5,657

[1] *For Q3 impaired loans are calculated considering the IFRS 9 requirements. June 2018 data revised to conform to presentation adopted in Q3*

The following details the allowances for credit losses:

	30-Sep-18	**30-Sep-17**
Balance beginning of the period [1]	$ 10,213	$ 7,858
Provision for credit losses	1,492	2,656
Write-offs (net of recoveries)	(897)	(922)
Balance end of the period	$ 10,808	$ 9,592

[1] *2018 provision amount inclusive of IFRS9 opening adjustment with income impact posted to retained earnings*

Geographic breakdown

	30-Sep-18			30-Jun-18			30-Sep-17	
Insured mortgages								
British Columbia	$ 61,376	4.7%		$ 61,698	4.7%		$ 77,007	5.3%
Alberta	288,360	22.1%		274,188	21.2%		315,198	21.5%
Ontario	168,189	12.9%		167,607	12.9%		211,218	14.4%
Atlantic provinces	164,878	12.6%		162,059	12.5%		189,346	12.9%
Other	61,074	4.7%		59,720	4.6%		69,675	4.8%
Total	**$ 743,877**	**57.0%**		**$ 725,272**	**55.9%**		**$ 862,444**	**58.9%**
Uninsured mortgages								
British Columbia	$ 122,641	9.4%		$ 124,753	9.6%		$ 132,360	9.0%
Alberta	106,213	8.1%		108,127	8.3%		112,721	7.7%
Ontario	297,755	22.8%		302,891	23.3%		313,506	21.4%
Atlantic provinces	7,446	0.6%		7,754	0.6%		10,027	0.7%
Other	28,004	2.1%		30,436	2.3%		32,799	2.3%
Total	**$ 562,059**	**43.0%**		**$ 573,961**	**44.1%**		**$ 601,413**	**41.1%**
Total portfolio	**$ 1,305,936**	**100.0%**		**$ 1,299,233**	**100.0%**		**$ 1,463,857**	**100.0%**

Insured or high-ratio mortgages are mortgages with less than 20% down payment on the lesser value of either the purchase price of a home or the appraised value. Below that threshold the Bank Act requires that mortgage default insurance must be obtained for a fee by a mortgage loan insurance provider. Uninsured or conventional mortgages are mortgage loans that do not exceed 80% of the lesser value of either the purchase price of a home or the appraised value.

Loan maturities

The following table provides a breakdown of loan maturities:

	Insured			Uninsured		
	30-Sep-18	**30-Jun-18**	**30-Sep-17**	**30-Sep-18**	**30-Jun-18**	**30-Sep-17**
Within 1 year	$ 290,073	$ 312,773	$ 389,559	$ 372,380	$ 369,606	$ 321,792
Over 1 to 3 years	195,533	192,149	203,392	188,075	202,835	278,744
Over 3 to 5 years	258,271	220,350	269,493	1,604	1,520	877
Total	**$ 743,877**	**$ 725,272**	**$ 862,444**	**$ 562,059**	**$ 573,961**	**$ 601,413**

Uninsured loan origination

The following table provides a breakdown on the average loan-to-value (LTV) by province for uninsured loans originated in the quarter:

	30-Sep-18	**30-Jun-18**	**30-Sep-17**
British Columbia	72.8%	72.8%	72.7%
Alberta	71.7%	78.0%	72.1%
Ontario	74.3%	72.2%	69.5%
Other	79.4%	77.7%	77.4%
Total	73.6%	73.2%	70.8%

Loan amortization
The following table provides a breakdown of mortgages outstanding based on original amortization:

	30-Sep-18		30-Jun-18		30-Sep-17	
25 years or less	726,132	55.6%	$ 685,204	52.7%	$ 738,259	50.4%
25-30 years	530,045	40.6%	553,091	42.6%	637,278	43.5%
30-35 years	49,175	3.8%	60,043	4.6%	86,091	5.9%
35-40 years	584	0.0%	895	0.1%	2,229	0.2%
Total	**$ 1,305,936**	**100.0%**	**$ 1,299,233**	**100.0%**	**$ 1,463,857**	**100.0%**

Interest Rate Risk
Interest rate risk is the risk of loss from future changes in the prevailing level of interest rates. The Bank is exposed to interest rate risk as a result of a difference, or gap, between the maturity or repricing date of interest rate-sensitive assets and liabilities, as well as on unsold mortgage commitments. Certain economic hedges are used to manage the interest rate risk, including synthetic bond shorts and interest rate swaps. The Bank uses two interest rate risk sensitivity models to measure the impact of changing interest rates on its equity position and net interest income for the 12 months following the measurement date. The objective is to measure the interest rate risk within Board approved guidelines.

The Bank's interest rate risk management policies are approved by the Board and the ALCO. The ALCO establishes and recommends to the Board interest rate risk tolerances, which the Board approves. The ALCO oversees stress testing of interest rate risk and the monitoring of risk mitigation strategies. The finance department is responsible for managing the Bank's interest rate risk positions in accordance with approved policies and assesses the impact of market events on the Bank's net interest income and equity at risk on an ongoing basis.

Based on the Bank's interest rate positions, an immediate and sustained change in interest rates would impact equity over the next 12 months, as follows:

	30-Sep-18	30-Jun-18	30-Sep-17
Increase of 100 basis points	$ 732	$ (460)	$ (1,055)
Decrease of 100 basis points	$ (2,747)	$ (1,914)	$ (1,114)

The Bank uses economic hedges to manage its interest rate risk, including synthetic bond shorts and interest rate swaps. Notional amounts represent the amount to which a rate or price is applied in order to calculate the exchange of cash flows. Current replacement cost represents the cost of replacing all positive fair value contracts using current market rates. The credit risk equivalent represents the current replacement cost and the potential future credit exposure if the counterparty defaults. Potential future credit exposure is determined based on a formula prescribed by OSFI.

Liquidity Risk
Liquidity risk is the risk that cash demands or funding obligations cannot be met as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The Bank is exposed to liquidity risk due to the mismatching of the duration of assets, particularly the maturity of mortgages, and liabilities, particularly term deposits. The Bank is also exposed to liquidity risk to the extent that the Bank's unfunded mortgage and

repurchase commitments outstanding and trade obligations committed but not yet paid exceed available cash or ability to raise deposits.

The Bank’s liquidity and funding policies are approved by the Board and the ALCO. The ALCO establishes and recommends to the Board liquidity risk tolerances, which the Board approves. The Bank’s policies address the minimum level of liquid assets, the composition of liquid assets, the stress tests to be completed and the frequency of assessments. The ALCO reviews the composition and terms of assets and liabilities, reviews liquidity and funding policies and regularly monitors compliance with these policies. The ALCO also oversees stress testing of liquidity and funding risk and the monitoring of the Bank’s contingency funding plan. The finance department is responsible for managing the Bank’s liquidity and funding positions in accordance with approved policies and assesses the impact of market events on liquidity requirements on an ongoing basis.

The Bank evaluates total liquid assets against funding requirements and stress test scenarios to ensure liquid assets are available to cover current needs and during periods of market stress. Quarterly, standard stress tests are performed in addition to scenarios dependent upon the risks existing at the time testing is performed. The results are reported to the ALCO and the Board. The Bank’s liquid assets are made up of cash with large institutions, and unencumbered, high quality liquid assets. The Bank's liquidity coverage is 14.9.

Liquidity is managed by selling or securitizing funded mortgages to investors and via the management of the amount and term of outstanding deposits. The Bank monitors its exposure to funding sources and sets limits to reduce the Bank’s reliance on any one funding source. Investors include whole loan investors, MBS investors and the Canadian Housing Trust (CHT) through the CMB program. As the Bank is not rated by a recognized credit agency, a rated intermediary is required to act on its behalf in dealings with the CHT. The Bank continues to maintain liquidity through issuing MBS, and raising deposits through deposit brokers. Although the Bank has deposits maturing within one year, liquidity is expected to be maintained through continued mortgage sales or securitizations, renewal of a portion of these deposits and raising new deposits.

The finance department prepares weekly three-month cash requirements forecasts (including lending commitments, mortgage sales and securitizations and deposits issuances and maturities) that are updated and monitored daily with regular review by the ALCO.

The Bank also manages its liquidity to comply with OSFI’s Liquidity Adequacy Requirements (LAR). The LAR provides guidance on liquidity measures, the liquidity coverage ratio (LCR) and the net cumulative cash flow (NCCF). The LCR is a BCBS designed liquidity measure that requires the Bank to maintain a sufficient stock of high-quality liquid assets to cover a minimum of 30 days of net cash outflows in a stressed environment. The OSFI-designed NCCF measures funding mismatches over and up to a 12-month time horizon.

Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and includes legal risk. The Bank through the Operational Risk Management framework, establishes and tests operational processes to ensure appropriate controls are in place and are effective in the prevention, detection and mitigation of operational risk exposure. Each business unit is required to identify and assess its operational risks and ensure that they are managed effectively.

REMUNERATION

Key management personnel include executive management and board directors as these groups have the authority and responsibility for planning, directing and controlling the activities of the Bank. The Bank reports its compensation costs annually:

	31-Dec-17	31-Dec-16
Salaries	$ 1,048	$ 950
Benefits	178	111
Total	**$ 1,226**	**$ 1,061**

Variable compensation is negligible and is not based on performance objectives. Variable compensation to executive management is equivalent to the variable compensation offered to all staff. Board directors receive no other compensation apart from board of director fees.

Annex 1 – Capital disclosures

Modified Capital Disclosure Template	30-Sep-18	30-Jun-18	30-Sep-17
Common Equity Tier 1 capital: instruments and reserves			
1 Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	$ 108,000	$ 108,000	$ 108,000
2 Retained earnings	(16,910)	(17,947)	(24,296)
6 **Common Equity Tier 1 capital before regulatory adjustments**	**$ 91,090**	**$ 90,053**	**$ 83,704**
Common Equity Tier 1 capital: regulatory adjustments			
28 Total regulatory adjustments to Common Equity Tier 1	(4,826)	(5,287)	(8,209)
29 **Common Equity Tier 1 capital (CET1)**	**$ 86,264**	**$ 84,766**	**$ 75,495**
Additional Tier 1 capital: regulatory adjustments			
43 Total regulatory adjustments to Additional Tier 1	-	-	-
44 Additional Tier 1 capital (AT1)	-	-	-
45 **Tier 1 capital (T1 = CET1 + AT1)**	**$ 86,264**	**$ 84,766**	**$ 75,495**
Tier 2 capital: instruments and provisions			
46 Directly issued qualifying Tier 2 instruments plus related stock surplus	24,000	30,000	30,000
51 **Tier 2 capital before regulatory adjustments**	**$ 24,000**	**$ 30,000**	**$ 30,000**
Tier 2 capital: regulatory adjustments			
57 Total regulatory adjustments to Tier 2 capital	-	-	-
58 Tier 2 capital (T2)	24,000	30,000	30,000
59 **Total capital (TC = T1 + T2)**	**$ 110,264**	**$ 114,766**	**$ 105,495**
60 **Total risk-weighted assets**	**$ 298,006**	**$ 310,569**	**$ 317,140**
Capital ratios			
61 Common Equity Tier 1 (as a percentage of risk-weighted assets)	28.9%	27.3%	23.8%
62 Tier 1 (as a percentage of risk-weighted assets)	28.9%	27.3%	23.8%
63 Total capital (as a percentage of risk-weighted assets)	37.0%	37.0%	33.3%
OSFI target			
69 Common Equity Tier 1 target ratio	7.0%	7.0%	7.0%
70 Tier 1 target ratio	8.5%	8.5%	8.5%
71 Total target ratio	10.5%	10.5%	10.5%

Annex 2 – Leverage ratio disclosures

	30-Sep-18	30-Jun-18	30-Sep-17
On-balance sheet exposures			
1 On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	$1,400,859	$1,428,445	$1,611,941
2 (Asset amounts deducted in determining Basel III Tier 1 capital)	(4,826)	(5,287)	(8,209)
3 Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	**$1,396,033**	**$1,423,158**	**$1,603,732**
Derivative exposures			
4 Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	125	198	80
11 **Total derivative exposures (sum of lines 4 to 10)**	**$ 125**	**$ 198**	**$ 80**
Securities financing transaction (SFTs) exposures			
14 Counterparty credit risk (CCR) exposure for SFTs	-	-	-
15 Agent transaction exposures	-	-	-
16 **Total SFTs exposures (sum of lines 12 to 15)**	**$ -**	**$ -**	**$ -**
Other off-balance sheet exposures			
17 Off-balance sheet exposure at gross notional amount	8,347	5,988	10,593
18 (Adjustments for conversion to credit equivalent amounts)	(6,678)	(4,790)	(8,474)
19 **Off-balance sheet items (sum of lines 17 and 18)**	**$ 1,669**	**$ 1,198**	**$ 2,119**
Capital and Total Exposures			
20 Tier 1 capital	86,264	84,766	75,495
21 Total exposures (sum of lines 3, 11, 16 and 19)	1,397,827	1,424,554	1,605,931
Leverage ratios			
22 Basel III leverage ratio	6.2%	6.0%	4.7%