



Bridgewater Bank Regulatory Disclosures December 31, 2014

This document was prepared to fulfill regulatory requirements of the Office of the Superintendent of Financial Institutions Canada. Public disclosure requirements under Basel II Pillar 3, Basel III Pillar 3, OSFI Guideline B-20 and other OSFI guidance are provided. All figures unless stated otherwise are in thousands of dollars.

The information contained in this document has not been audited.

Corporate Profile

Bridgewater Bank (the Bank), a federally regulated institution, is supervised by the Office of the Superintendent of Financial Institutions Canada (OSFI). The Bank is owned by the Alberta Motor Association and BwB Financial Holdings Ltd. The Alberta Motor Association is the majority shareholder.

The Bank specializes in residential mortgages and deposit products through a select network of brokers. In addition, it is the exclusive issuer of the CAA MasterCard. 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.

Capital Shares

Class A shares

Class A shares have no voting rights and are non-redeemable at the option of the Bank or non-retractable at the option of the holder. Class A shares are convertible 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. Class A shares are considered Additional Tier 1 non-viability contingent capital (NVCC) for OSFI requirements.

Common shares

Common shares have voting rights. They are considered Common Equity Tier 1 capital for OSFI requirements.

Subordinated debt

The Bank has issued subordinated notes which are unsecured and subordinated to all other indebtedness of the Bank. The loan bears interest at 10% 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 NVCC capital for OSFI requirements.

Capital Management

The Bank manages its capital under guidelines established by OSFI. 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 has three main objectives. They are 1) to ensure there is sufficient capital in order to meet regulatory restrictions on its assets-to-capital multiple; 2) to allow for asset accumulation to manage cash flow commitments under normal operating environments; and 3) 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.

The Bank is fully applying the Basel III deductions to calculate the all-in target ratios as per OSFI's Capital Adequacy Guidelines. The following details the Bank's capital position under Basel III capital requirements as of December 31, 2014:

Modified Capital Disclosure Template		All-in	Transitional
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	56,000	
2	Retained earnings	(24,813)	
6	Common Equity Tier 1 capital before regulatory	31,187	
Common Equity Tier 1 capital: regulatory adjustments			
28	Total regulatory adjustments to Common Equity Tier 1	(8,757)	
29	Common Equity Tier 1 capital (CET1)	22,430	29,436
Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	52,000	
36	Additional Tier 1 capital before regulatory adjustments	52,000	
Additional Tier 1 capital: regulatory adjustments			
43	Total regulatory adjustments to Additional Tier 1	-	
44	Additional Tier 1 capital (AT1)	52,000	
45	Tier 1 capital (T1 = CET1 + AT1)	74,430	81,436
Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	30,000	
51	Tier 2 capital before regulatory adjustments	30,000	
Tier 2 capital: regulatory adjustments			
57	Total regulatory adjustments to Tier 2 capital	-	
58	Tier 2 capital (T2)	30,000	
59	Total capital (TC = T1 + T2)	104,430	111,436
60	Total risk-weighted assets	215,580	222,585
Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	10.40%	13.22%
62	Tier 1 (as a percentage of risk-weighted assets)	34.53%	36.59%
63	Total capital (as a percentage of risk-weighted assets)	48.44%	50.06%
OSFI all-in target			
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%	

Risk-Weighted Assets

The following table provides a breakdown of credit risk exposures as of December 31, 2014. Average exposure is calculated by taking the average of the quarterly gross exposures for a 12 month period.

	Gross exposure	Average exposure	RWA	Capital required
Bank and sovereign	\$ 191,029	\$ 162,318	\$ 32,941	\$ 2,306
Retail residential mortgages	1,463,689	1,676,834	50,502	3,535
Other retail	50,484	51,282	36,438	2,551
Other assets	27,136	33,252	27,136	1,900
Total Credit Risk	1,732,338	1,923,686	147,017	10,292
Operational Risk	-	-	68,563	4,799
Total Risk-Weighted Assets	\$1,732,338	\$1,923,686	\$ 215,580	\$ 15,091

Risk Management

Credit Risk

Credit risk is the risk of loss resulting from the failure of a counterparty to honour 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 Management Framework (RMF) approved by the Board and the Audit and 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 Audit and 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. Securitized mortgages and residential mortgages are insured against credit losses, which reduce the Bank's credit risk, except for a small portion of conventional uninsured mortgages in the total portfolio. Both types of mortgages are residential mortgages and all credit card loans are to individuals. Funded mortgages also 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. The majority of credit card loans are unsecured but credit risk is managed through assigning credit limits to customers. The Bank maintains provisions for potential credit 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

and by utilizing a number of different organizations, where possible, to minimize the impact of the risk of any one counterparty defaulting on its contractual obligations.

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 and mortgages that pose a higher risk where the down payment is less than 20% of the mortgage loan are insured against losses. The Bank's mortgage default rate in 2014 is low and it anticipates its mortgage delinquency rate of around 3% will increase with current economic conditions in Canada. As of December 31, 2014, 90.95% of issued mortgages are insured, which reduces the Bank's risk of financial loss. Additionally, the Bank restricts future lending in areas where economic uncertainty increases its exposure to credit loss. The Bank continues to have strong relationships with Canada's principle insurers, CMHC and Genworth Financial.

a) Impaired and past due loans

The Bank maintains a provision 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 provision for credit losses consists of specific provisions and a collective provision and the methodology and assumptions used for estimating each are reviewed on a regular basis.

There is objective evidence of impairment when one of the following conditions is met:

- the interest or principal repayment is contractually 90 days or more past due, unless the loan is fully secured or in the process of collection, or
- 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 defaults on the assets in the portfolio.

Specific mortgage provisions are determined on an item-by-item basis when an impaired loan is determined to be individually significant. The specific provision represents the amount required to reduce the carrying value of an impaired loan to its estimated realizable amount, taking into consideration, if applicable, proceeds available from mortgage insurers and collateral held.

The following provides aging information for loans that are past due as of December 31, 2014:

	Securitized mortgages	Residential mortgages	Credit card loans	Total
1-29 days	\$ 17,122	\$ 5,612	\$ 2,448	\$ 25,182
30-59 days	5,708	3,590	539	9,837
60-89 days	3,139	926	256	4,321
Over 90 days	7,151	12,684	622	20,457
	<u>\$ 33,120</u>	<u>\$ 22,812</u>	<u>\$ 3,865</u>	<u>\$ 59,797</u>

The following details the collective and specific provision for credit losses as of December 31, 2014:

	Collective	Specific	Total
At December 31, 2013	\$ 4,718	\$ 1,330	\$ 6,048
Provision	3,096	1,442	4,538
Write-offs	(2,789)	(492)	(3,281)
At December 31, 2014	\$ 5,025	\$ 2,280	\$ 7,305

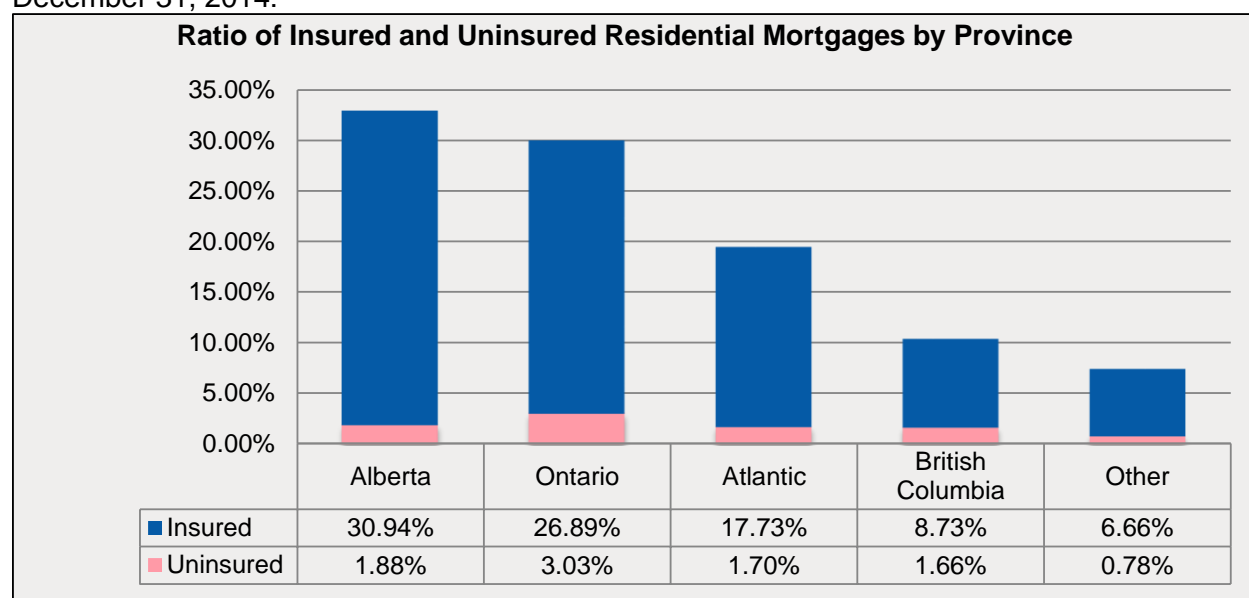
b) Geographic breakdown

The following table provides a breakdown of loan balances as of December 31, 2014:

	Securitized mortgages	Residential mortgages	Credit card loans	Total	% of portfolio
Alberta	\$ 379,075	\$ 101,243	\$ 16,431	\$ 496,749	32.81%
Ontario	337,240	100,608	21,082	458,930	30.31%
Atlantic provinces	212,937	71,430	6,645	291,012	19.22%
British Columbia	106,448	45,620	1,418	153,486	10.14%
Other	77,776	31,078	4,908	113,762	7.52%
	\$1,113,476	\$ 349,979	\$ 50,484	\$1,513,939	100.00%
As a % of portfolio	73.55%	23.12%	3.33%	100.00%	

c) Insured and uninsured portfolio

The Bank's total mortgage portfolio is represented by 90.95% or \$1.331 billion in insured mortgages and 9.05% or \$132 million in uninsured mortgages. 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. The following chart provides a breakdown of the mortgage portfolio by province by insured and uninsured as of December 31, 2014:



d) Uninsured loan origination

The average loan-to-value (LTV) of uninsured mortgages originated during the quarter ended December 31, 2014 was 71.53%. The following chart provides a breakdown on the average LTV by province of loans originated in the quarter ended December 31, 2014:

Province	Average LTV
Alberta	70.44%
Ontario	73.04%
British Columbia	72.28%
Other	65.00%

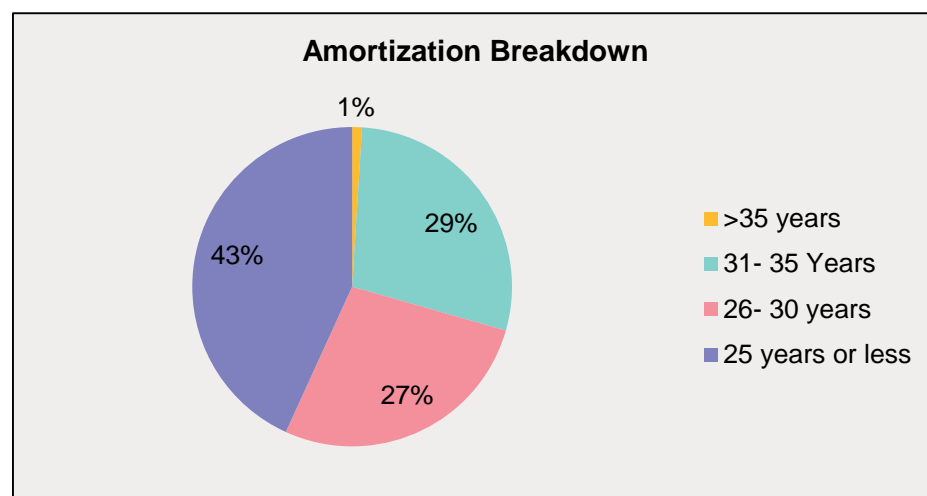
e) Loan maturities

The following table provides a breakdown of loan maturities as of December 31, 2014:

	Within 1 year	Over 1 to 3 years	Over 3 to 5 years	Over 5 years	Carrying value
Securitized mortgages	\$ 588,092	\$ 439,399	\$ 85,985	\$ -	\$1,113,476
Residential mortgages	159,689	118,002	69,057	3,231	349,979
Credit card loans	50,484	-	-	-	50,484
Total	\$ 798,265	\$ 557,401	\$ 155,042	\$ 3,231	\$1,513,939

f) Loan amortization

The following chart provides a breakdown of mortgages outstanding based on original amortization as of December 31, 2014:



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. It 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 guidelines.

Management incorporates expectations of future events where the maturity or repricing dates differ from contractual dates. Some contractual obligations, such as mortgages will be terminated prior to their maturity date through prepayments. The Bank incorporates these assumptions in the management of interest rate risk exposure.

The Bank's RMF includes interest rate risk management policies that 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 at December 31, 2014, an immediate and sustained change in interest rates would impact equity over the next 12 months, as follows:

Increase of 100 basis points	\$	(2,382)
Decrease of 100 basis points	\$	2,998

The Bank uses economic hedges to manage its interest rate risk, including synthetic bond shorts and interest rate swaps. The following table summarizes the synthetic bond shorts, the interest rate swap portfolio and the related credit risk at December 31, 2014. 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.

	Notional amount	Current replacement cost	Credit risk equivalent
Within 1 year	\$ 557,961	\$ 1,991	\$ 1,991
Over 1 to 5 years	307,926	730	2,270
	<u>\$ 865,887</u>	<u>\$ 2,721</u>	<u>\$ 4,261</u>

The risk-weighted balance for these derivative instruments, which represents the credit risk equivalent weighted according to the credit worthiness of the counterparty as prescribed by OSFI is \$1.

Cash deposits and restricted investments of \$9,630 are maintained with the counterparties as collateral based on the amount and position of securities outstanding. These amounts are restricted and not available for general use. The counterparties to the various derivatives can request additional collateral if the Bank increases its positions or if unrealized losses exceed agreed upon limits.

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, the repayment of credit card receivables and liabilities, particularly term deposits. The Bank is also exposed to liquidity risk to the extent that the Bank's unfunded mortgage and credit card commitments, repurchase commitments outstanding and trade obligations committed but not yet paid exceed available cash or ability to raise deposits.

The Bank's RMF includes liquidity and funding policies that 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 credit quality assets. The Bank's liquidity coverage is 13.31, which is within Board policy limits.

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, mortgage-backed securities (MBS) investors and the Canadian Housing Trust (CHT) through the Canada Mortgage Bond 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, selling to whole loan investors, 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.

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's compensation costs are:

	Year ended 12/31/2013	Year ended 12/31/2014
Salaries	\$ 1,032	\$ 1,033
Short-term employee benefits	21	22
Post-employment benefits	131	94
	<u>\$ 1,184</u>	<u>\$ 1,149</u>

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.