REGULATORY DISCLOSURES

March 31, 2023

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. Unless stated otherwise, all figures 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 (AMA), the largest membership service organization in Alberta.

Specializing in residential mortgages and deposit products through a select network of brokers, the Bank serves customers across Canada. The Bank participates in the National Housing Act (NHA) mortgage-backed securities (MBS) and Canada Mortgage Bond (CMB) programs.

CAPITAL

Capital is a key factor in the safety and soundness of a financial institution. The Bank's Capital Management Policy governs the capital management of the Bank. The Bank manages its capital under guidelines established by OSFI which are based on the Basel Committee on Banking and Supervision (BCBS) framework. The BCBS published "Basel III: A global regulatory framework for more resilient banks and banking systems" (Basel III) which sets out capital and liquidity requirements. The regulatory capital guidelines measure capital in relation to credit, market and operational risks. The Bank uses the standardized approach for the measurement of credit risk and the basic indicator approach for the measurement of operational risk.

The Bank's objectives are to ensure there is sufficient capital in order to meet regulatory restrictions on its capital ratios as well as to allow for asset accumulation for the Bank to manage cash flow commitments under normal operating environments, develop and introduce new products and expand current offerings. The Bank has various capital policies, procedures, and controls which it utilizes to achieve its goals and objectives.

Under OSFI's requirements, capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 capital is further broken into Common Equity Tier 1 (CET1) and Additional Tier 1 capital. CET1 comprises the highest quality of capital and consists primarily of common shares and retained earnings less deductions as prescribed by OSFI. The Bank does not hold capital that meets the requirements for Additional Tier 1 capital.

In March 2020, OSFI announced several relief measures to address COVID-19 impacts. One of these measures was the introduction of a transitional arrangement for ECL on capital. ECL allowances that would normally be included in Tier 2 capital were permitted to be included in CET1 capital. The adjustment to the capital ratios was to be dynamically measured each quarter. The adjustment was equal to the increase in Stage 1 and Stage 2 allowances relative to December 31, 2019. This increase was tax-effected and subject to a scaling factor set at 50% for 2021, 25% for 2022, and nil% thereafter.

	31-Mar-23	31-Dec-22	31-Mar-22
Capital:			
CET 1 capital	**$ 142,032**	$ 142,391	$ 141,074
Tier 1 capital	**142,032**	142,391	141,074
Total capital	**148,897**	148,641	146,395
Risk-weighted assets			
Credit risk	**577,236**	527,694	434,567
Operational risk	**56,588**	57,700	59,238
	$ 633,824	$ 585,394	$ 493,805
Capital ratios:			
CET 1	**22.4%**	24.3%	28.6%
Tier 1	**22.4%**	24.3%	28.6%
Total	**23.5%**	25.4%	29.7%
Leverage ratio	**7.5%**	8.1%	9.0%

CAPITAL STRUCTURE

The Bank's capital consists solely of common shares. Common shares have voting rights. They are considered CET1 capital for capital adequacy requirements (CAR) as per OSFI guidelines.

RISK MANAGEMENT

Risk management is an essential component of the Bank's operations. The Bank invests significantly in risk management practices and resources, and this investment contributes directly to the Bank's profitability.

The Enterprise Risk Management (ERM) Policy governs the risks within the Bank. The Chief Risk Officer (CRO) establishes this policy, and it is approved for use in the Bank by the Board of Governors of AMA and the Board of Directors. The ERM Policy outlines the approach and the strategy of the ERM Program and sets outs roles and responsibilities.

The ERM Framework explains the methodology for integrating ERM into all levels of the Bank. The Framework supports the ERM Policy and explains the risk approach. It also establishes the context in identifying, analyzing, evaluating and monitoring risk. The ERM Framework is embedded within the Bank's overall strategic and operational policies and procedures.

The Bank's business strategies and operations expose us to a wide range of risks that could adversely affect operations and financial condition, which in turn can significantly affect the Bank's profitability and growth objectives. When evaluating risks, management makes decisions about which risks it will accept, mitigate and avoid. These decisions are guided by the Bank's Risk Appetite Statement. The types of risk to which the Bank is subject to include: strategic, credit, interest rate, liquidity, operational, regulatory and reputation.

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 has 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.

ECONOMIC RISK FACTORS

In March 2020, the World Health Organization declared COVID-19 as a global pandemic. As a result, risks to the Bank had increased. Governments around the world including Canada had introduced containment measures to slow the spread, such as business closures, travel restrictions and quarantines. The Government of Canada had instituted various relief measures to stem the impacts of the pandemic on individuals and businesses.

The Bank of Canada had also introduced a range of liquidity programs and regulatory changes to support the financial sector. Relief measures and court closures required the Bank to either defer legal actions or conduct business related to foreclosures, repossessions, and payments differently. Since the beginning of the year COVID-19 restrictions have been lifted, and economic activity has resumed. All the relief measures introduced by the Government, or the Bank of Canada were either phased out or withdrawn.

The Bank continues to operate with a significant portion of its workforce in a hybrid work environment. A work from home or a hybrid environment can increase operational risks such as increased cyberattacks and potential service interruptions.

The Bank is now faced with economic challenges associated with higher inflation and higher interest environment. Bank of Canada like other central banks around the world increased interest rates significantly to combat the rise of inflation. Consequently, it has resulted in higher borrowing costs, lower property prices and lower demand for mortgages. This has impacted the Bank's spread on its assets and the net income. The Bank could also be subject to higher loan losses due to the higher borrowing costs leading to increased lending rates for the customer.

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 Appetite Statement approved by the Board and the Risk Committee. The 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 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 cash with major Canadian banks. Mortgages comply with the product and underwriting policies of the Bank and the mortgage insurers. Mortgage security is obtained on all funded mortgages and values are supported with real estate appraisals to mitigate the risk of loss in the event of foreclosure. The Bank maintains an allowance for expected 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.

Geographic breakdown

Single-family residential mortgages

The table below details the geographic break down of the Bank's single-family residential mortgages:

	31-Mar-23			31-Dec-22			31-Mar-22		
Insured mortgages									
British Columbia	**$**	**31,148**	**1.8%**	$	30,529	1.9%	$	32,574	2.4%
Alberta		**154,811**	**8.9%**		150,331	9.4%		164,401	11.9%
Ontario		**66,513**	**3.8%**		63,533	4.0%		71,661	5.2%
Atlantic provinces		**77,988**	**4.5%**		76,763	4.8%		84,063	6.1%
Other		**31,738**	**1.8%**		31,923	1.9%		34,063	2.5%
Total	**$**	**362,198**	**20.8%**	$	353,079	22.0%	$	386,762	28.1%
Uninsured mortgages									
British Columbia	**$**	**270,601**	**15.5%**	$	254,885	15.9%	$	208,925	15.1%
Alberta		**315,480**	**18.1%**		287,781	17.9%		214,560	15.6%
Ontario		**727,107**	**41.8%**		655,187	40.8%		525,175	38.1%
Atlantic provinces		**2,421**	**0.1%**		2,536	0.2%		3,380	0.2%
Other		**63,038**	**3.7%**		53,675	3.2%		40,643	2.9%
Total	**$**	**1,378,647**	**79.2%**	$	1,254,064	78.0%	$	992,683	71.9%
Total portfolio	**$**	**1,740,845**	**100.0%**	$	1,607,143	100.0%	$	1,379,445	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.

Uninsured single-family residential loan origination

The following table provides a breakdown on the average LTV for uninsured single-family residential loans originated in the quarter:

	31-Mar-23	31-Dec-22	31-Mar-22
British Columbia	**67.6%**	65.6%	68.3%
Alberta	**75.1%**	74.3%	74.7%
Ontario	**67.3%**	66.6%	67.7%
Other	**75.3%**	73.5%	74.0%
Total	**69.6%**	68.3%	69.6%

Loan amortization

The following table provides a breakdown of single-family residential mortgages outstanding based on original amortization:

	31-Mar-23			31-Dec-22			31-Mar-22		
25 years or less	**$**	**614,920**	**35.3%**	$	600,930	37.4%	$	592,838	43.0%
25-30 years		**1,047,453**	**60.2%**		984,453	61.3%	$	784,003	56.8%
30-35 years		**78,472**	**4.5%**		21,760	1.3%	$	2,604	0.2%
Total	**$**	**1,740,845**	**100.0%**	$	1,607,143	100.0%	$	1,379,445	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 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.

ALCO manages the interest rate sensitivity on equity within the Board authorized limits. Based on the Bank's interest rate positions, an immediate and sustained change in interest rates would impact equity as follows:

	31-Mar-23		31-Dec-22		31-Mar-22	
Increase of 100 basis points	**$**	**2,418**	$	2,453	$	(832)
Decrease of 100 basis points	**$**	**(3,591)**	$	(3,623)	$	(1,634)

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 ratio is 3.8.

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. 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 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.

ANNEX 1 – CAPITAL DISCLOSURES

Modified CC1: Composition of Regulatory Capital		31-Mar-23	31-Dec-22	31-Mar-22
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	**$ 138,000**	$ 138,000	$ 138,000
2	Retained earnings	**4,585**	4,723	3,557
6	**Common Equity Tier 1 capital before regulatory adjustments**	**$ 142,585**	$ 142,723	$ 141,557
Common Equity Tier 1 capital: regulatory adjustments				
26	Other deductions or regulatory adjustments to CET1 as determined by OSFI	**-**	346	40
28	Total regulatory adjustments to Common Equity Tier 1	**(553)**	(678)	(523)
29	**Common Equity Tier 1 capital (CET1)**	**$ 142,032**	$ 142,391	$ 141,074
29a	**Common Equity Tier 1 capital (CET1)** with transitional arrangements for ECL provisioning not applied	**$ 142,032**	$ 142,045	$ 141,034
Additional Tier 1 capital: regulatory adjustments				
44	Additional Tier 1 capital (AT1)	**-**	-	-
45	**Tier 1 capital (T1 = CET1 + AT1)**	**$ 142,032**	$ 142,391	$ 141,074
45a	**Tier 1 capital** with transitional arrangements for ECL provisioning not applied	**$ 142,032**	$ 142,045	$ 141,034
Tier 2 capital: instruments and allowances				
50	Collective allowances	**6,865**	6,250	5,321
51	**Tier 2 capital before regulatory adjustments**	**$ 6,865**	$ 6,250	$ 5,321
Tier 2 capital: regulatory adjustments				
58	Tier 2 capital (T2)	**6,865**	6,250	5,321
59	**Total capital (TC = T1 + T2)**	**$ 148,897**	$ 148,641	$ 146,395
59a	**Total capital** with transitional arrangements for ECL provisioning not applied	**$ 148,897**	$ 148,295	$ 146,355
60	**Total risk-weighted assets**	**$ 633,824**	$ 585,394	$ 493,805
Capital ratios				
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	**22.4%**	24.3%	28.6%
61a	CET1 ratio with transitional arrangements for ECL provisioning not applied	**22.4%**	24.3%	28.6%
62	Tier 1 (as a percentage of risk-weighted assets)	**22.4%**	24.3%	28.6%
62a	Tier 1 capital ratio with transitional arrangements for ECL provisioning not applied	**22.4%**	24.3%	28.6%
63	Total capital (as a percentage of risk-weighted assets)	**23.5%**	25.4%	29.7%
63a	Total capital ratio with transitional arrangements for ECL provisioning not applied	**23.5%**	25.3%	29.7%
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

LR2: Leverage Ratio		31-Mar-23	31-Dec-22	31-Mar-22
On-balance sheet exposures				
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	**$1,888,562**	$1,751,658	$1,566,826
4	(Asset amounts deducted in determining Tier 1 capital)	**(553)**	(678)	(523)
5	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 4)**	**$1,888,009**	$1,750,980	$1,566,303
Derivative exposures				
6	Replacement cost associated with all derivative transactions	**-**	-	689
7	Add-on amounts for potential future exposure associated with all derivative transactions	**-**	-	12
11	**Total derivative exposures (sum of lines 6 to 10)**	**$ -**	$ -	$ 701
Other off-balance sheet exposures				
17	Off-balance sheet exposure at gross notional amount	**19,041**	13,923	24,913
18	(Adjustments for conversion to credit equivalent amounts)	**(15,233)**	(11,138)	(19,930)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**$ 3,808**	$ 2,785	$ 4,983
Capital and Total Exposures				
20	Tier 1 capital	**142,032**	142,391	141,074
20a	Tier 1 capital with transitional arrangements for ECL provisioning not applied	**142,032**	142,045	141,034
21	Total exposures (sum of lines 5, 11 and 19)	**1,891,817**	1,753,765	1,571,987
Leverage ratios				
22	Basel III leverage ratio	**7.5%**	8.1%	9.0%
22a	Basel III leverage ratio with transitional arrangements for ECL provisioning not applied	**7.5%**	8.1%	9.0%

Notes:

Securities Financing Transactions (SFTs)