REGULATORY DISCLOSURE

2023-06-30

CORPORATE PROFILE

Bridgewater Bank (the Bank) is a Schedule 1 Bank under the *Bank Act* (Canada) and is regulated by the Office of the Superintendent of Financial Institutions Canada (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.

SCOPE OF DISCLOSURE

This document is prepared in accordance with OSFI's *Pillar 3 Disclosure Guideline for Small and Medium-Sized Deposit-Taking Institutions (SMSBs) Capital and Liquidity Requirements* for a Category II SMSB. OSFI's requirements are based on the Basel Committee of Banking Supervision (BCBS) Pillar 3 disclosure requirements. Additional disclosure requirements outlined in OSFI Guideline *B-20 Residential Mortgage Underwriting Practices and Procedures* have been incorporated in this document.

Unless stated otherwise, all figures are in thousands of dollars except for percentages. The information contained in this document has not been audited.

Additional information can be found at OSFI's financial data website:
https://www.osfi-bsif.gc.ca/Eng/wt-ow/Pages/fd-df.aspx

CAPITAL MANAGEMENT

The Bank's Capital Management Policy governs the Bank's capital adequacy with respect to regulatory requirements, risk appetite and strategic objectives. The Bank's Internal Capital Adequacy Assessment Process (ICAAP) assesses the Bank's capital plan under stressed conditions to ensure appropriate capital adequacy of the Bank. The Bank has various capital policies, procedures, and controls which it utilizes to achieve its goals and objectives. The Capital Management Policy is reviewed annually by the Board.

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. Effective April 1, 2023, OSFI implemented changes to its Capital Adequacy Requirements. The Bank has not restated prior period capital ratios as a result of these changes. The Bank uses the Standardized Approach for the measurement of credit risk and effective Q2/23 the Simplified Standardized Approach for the measurement of operational risk.

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. Included in the Bank's Tier 2 capital is eligible allowances for credit losses.

	30-Jun-23	31-Mar-23	30-Jun-22
Capital:			
CET 1 capital	$ 142,437	$ 142,032	$ 140,803
Tier 1 capital	142,437	142,032	140,803
Total capital	149,565	148,897	146,240
Risk-weighted assets:			
Credit risk	582,127	577,236	483,440
Operational risk	60,300	56,588	58,213
	$ 642,427	$ 633,824	$ 541,653
Capital ratios:			
CET 1	22.2%	22.4%	26.0%
Tier 1	22.2%	22.4%	26.0%
Total	23.3%	23.5%	27.0%
Leverage ratio	7.2%	7.5%	8.6%

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

The Bank is faced with economic challenges associated with higher inflation and higher interest rates environment. The 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 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.

The Bank mitigates the impact of an economic slowdown to its business with prudent underwriting practices and risk management. The Bank’s Expected Credit Loss model considers various economic conditions in the establishment of loan loss allowances.

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.

CREDIT RISK

Credit risk is the risk of loss resulting from the failure of a counterparty to honour its financial obligation.

Credit risk management is a component of the Risk Appetite Statement approved by the Board and the Risk Committee. The Asset and Liability 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 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.

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 is 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.

INTEREST RATE RISK IN THE BANKING BOOK

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 mortgage commitments. The primary interest rate risk management tactic is to match the repricing terms of interest rate-sensitive assets and liabilities. 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 shock events on the Bank's net interest income and equity at risk on monthly 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:

	30-Jun-23	31-Mar-23	30-Jun-22
Increase of 100 basis points	$ 2,522	$ 2,418	$ 733
Decrease of 100 basis points	$ (3,727)	$ (3,591)	$ (2,581)

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.

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. Proactive management of operational risk is the key objective of the Bank as outlined in the Bank’s Operational Risk Management Framework (ORMF). The ORMF 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.

The ORMF utilizes the three lines of defense approach to provide for effective risk management and control objectives. Each business unit is required to identify and assess its operational risks and ensure that they are managed effectively. This includes the establishment of procedures and guidelines, identification of risks, incident reporting, and corrective measures. The second line of defense provides oversight and review of the business units. The third line of defence provides independent review of first- and second-line activities.

B-20 RESIDENTIAL MORTGAGE DISCLOSURE

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.

Geographic breakdown of single-family residential mortgages (on-balance sheet)

	30-Jun-23			31-Mar-23			30-Jun-22		
Insured mortgages									
British Columbia	$	28,727	1.6%	$	31,148	1.8%	$	30,720	2.1%
Alberta		150,397	8.3%		154,811	8.9%		154,180	10.5%
Ontario		63,636	3.5%		66,513	3.8%		65,349	4.5%
Atlantic provinces		74,932	4.1%		77,988	4.5%		78,692	5.4%
Other		31,020	1.7%		31,738	1.8%		31,805	2.2%
Total	$	348,712	19.2%	$	362,198	20.8%	$	360,746	24.7%
Uninsured mortgages									
British Columbia	$	290,944	16.1%	$	270,601	15.5%	$	233,723	15.9%
Alberta		335,249	18.6%		315,480	18.1%		253,989	17.3%
Ontario		760,233	42.1%		727,107	41.8%		572,847	39.0%
Atlantic provinces		2,393	0.1%		2,421	0.1%		3,114	0.2%
Other		69,729	3.9%		63,038	3.7%		42,600	2.9%
Total	$	1,458,548	80.8%	$	1,378,647	79.2%	$	1,106,273	75.3%
Total portfolio	$	1,807,260	100.0%	$	1,740,845	100.0%	$	1,467,019	100.0%

Original loan amortization of single-family residential mortgages (on-balance sheet)

	30-Jun-23			31-Mar-23			30-Jun-22		
25 years or less	$	599,519	33.2%	$	614,920	35.3%	$	591,232	40.3%
25-30 years		1,038,209	57.4%		1,047,453	60.2%		874,137	59.6%
30-35 years		169,532	9.4%		78,472	4.5%		1,650	0.1%
Total	$	1,807,260	100.0%	$	1,740,845	100.0%	$	1,467,019	100.0%

LTV for uninsured single-family residential loans originated in the quarter

	30-Jun-23	31-Mar-23	30-Jun-22
British Columbia	70.0%	67.6%	67.9%
Alberta	72.4%	75.1%	75.3%
Ontario	66.9%	67.3%	65.8%
Other	74.0%	75.3%	70.1%
Total	69.3%	69.6%	68.9%

ANNEX 1 – CAPITAL DISCLOSURES

Modified CC1: Composition of Regulatory Capital		30-Jun-23	31-Mar-23	30-Jun-22
Common Equity Tier 1 capital: instruments and reserves				
1	Directly issued qualifying common share capital plus related stock surplus	$ 138,000	$ 138,000	$ 138,000
2	Retained earnings	4,927	4,585	3,472
6	Common Equity Tier 1 capital before regulatory adjustments	142,927	142,585	141,472
Common Equity Tier 1 capital: regulatory adjustments				
28	Total regulatory adjustments to Common Equity Tier 1	(490)	(553)	(669)
29	Common Equity Tier 1 capital (CET1)	$ 142,437	$ 142,032	$ 140,803
Additional Tier 1 capital: instruments				
36	Additional Tier 1 capital before regulatory adjustments	-	-	-
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)	$ 142,437	$ 142,032	$ 140,803
Tier 2 capital: instruments and provisions				
50	Collective allowances	7,128	6,865	5,437
51	Tier 2 capital before regulatory adjustments	7,128	6,865	5,437
Tier 2 capital: regulatory adjustments				
57	Total regulatory adjustments to Tier 2 capital	-	-	-
58	Tier 2 capital (T2)	$ 7,128	$ 6,865	$ 5,437
59	Total capital (TC = T1 + T2)	$ 149,565	$ 148,897	$ 146,240
60	Total risk-weighted assets	$ 642,427	$ 633,824	$ 541,653
Capital ratios				
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	22.2%	22.4%	26.0%
62	Tier 1 (as a percentage of risk-weighted assets)	22.2%	22.4%	26.0%
63	Total capital (as a percentage of risk-weighted assets)	23.3%	23.5%	27.0%
OSFI target				
69	Common Equity Tier 1 target ratio	7.0%	7.0%	7.0%
70	Tier 1 capital target ratio	8.5%	8.5%	8.5%
71	Total capital target ratio	10.5%	10.5%	10.5%

ANNEX 2 – LEVERAGE RATIO DISCLOSURES

LR2: Leverage Ratio		30-Jun-23	31-Mar-23	30-Jun-22
On-balance sheet exposures				
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	$ 1,978,020	$ 1,888,562	$ 1,637,853
4	(Asset amounts deducted in determining Tier 1 capital)	(490)	(553)	(737)
5	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 4)	$ 1,977,530	$ 1,888,009	$ 1,637,116
Derivative exposures				
6	Replacement cost associated with all derivative transactions	63	-	-
7	Add-on amounts for potential future exposure associated with all derivative transactions	13	-	-
11	Total derivative exposures (sum of lines 6 to 10)	$ 76	$ -	$ -
Other off-balance sheet exposures				
17	Off-balance sheet exposure at gross notional amount	20,778	19,041	19,878
18	(Adjustments for conversion to credit equivalent amounts)	(12,467)	(15,233)	(15,902)
19	Off-balance sheet items (sum of lines 17 and 18)	$ 8,311	$ 3,808	$ 3,976
Capital and Total Exposures				
20	Tier 1 capital	142,437	142,032	140,803
21	Total exposures (sum of lines 5, 11 and 19)	1,985,917	1,891,817	1,641,092
Leverage ratios				
22	Basel III leverage ratio	7.2%	7.5%	8.6%

SFTs - Securities Financing Transactions