General Bank of Canada

Regulatory Disclosures

The Basel Committee of Banking Supervision sets out expectations for public disclosure of a bank's risk management objectives and policies, reporting systems, and definitions to be published annually.

Description of the Bank

General Bank of Canada operates two lending product lines; fixed rate indirect auto financing and commercial lending. Liquidity is sourced for the Bank's two lending product lines through a combination of established sources of liquidity, those being; issuance of fixed rate, term, Guaranteed Investment Certificates, drawing on the Bank's established securitization programs, and liquidity sourced through a demand high interest savings account. The Bank's treasury function is kept intentionally straight forward, with asset and liability maturity bands constantly monitored and matched within self-imposed limits. All financial assets and liabilities are fully disclosed on the Bank's balance sheet. The Bank has no subsidiaries, and all operations are conducted in Canada. The Bank has a robust and effective system of controls to assess and manage risk across various spectra, including credit risk, interest rate risk, liquidity risk, market risk, and operational (including regulatory) risk. The Bank endeavors to satisfy all regulatory disclosure requirements, without disclosing excessive / unnecessary information, in consideration of the Bank's lines of business and any potential competitive disadvantage that could arise from disclosure.

Capital and Capital Management

Capital and leverage ratios were calculated using the Basel III framework. Regulatory capital includes Common Equity Tier 1 (CET1), additional Tier 1 and Tier 2 capital. CET1 capital mainly consists of common shares, retained earnings and other components of equity. Tier 1 capital comprises predominantly CET1, with additional items that consist of capital instruments such as certain preferred shares. Tier 2 capital includes subordinated debentures that meet certain criteria and certain loan loss allowances. Total Capital is the sum of CET1, additional Tier 1 and Tier 2 capital.

Regulatory adjustments under Basel III include full deductions of intangibles, certain deferred tax assets, and non-significant investments in banking, financial and insurance entities.

Regulatory capital ratios are calculated by dividing capital by risk-weighted assets. The Bank's assets, by classes, are risk weighted, with additional consideration given to the Bank's operational risk, relying on the Basic Indicator Approach to quantify operational risk. OSFI provides two approaches to determining credit risk, those being the Standardized Approach versus the Internal Ratings Based Approach, with the Bank following the former.

Asset Class with Risk Weight %		December 31, 2022 (000's) Risk Weighted Value		Capital Allocated
Cash and equivalents 20%	$	47,888	$	5,986
Consumer retail loans 75%		1,203,481	$	150,435
Commercial loans 35%-100%		630,648	$	78,831
Investments 100%		3,217	$	402
All other 100%		56,490	$	7,061
Total Adjusted Risk-Weighted Assets		1,941,724		242,715
Operational Risk		85,747		10,718
Total Risk-Weighted Assets	$	2,027,471	$	253,433
Surplus Capital			$	18,073
Total Capital			$	271,506

OSFI formally establishes risk-based capital targets for deposit-taking institutions in Canada. These targets are currently a Tier 1 ratio of greater than or equal to 7.0%, and a Total capital ratio of greater than or equal to 10.5%. In addition, Canadian banks are required to ensure that their leverage ratio, which is calculated by dividing Total capital by Total assets, does not fall below a minimum, as prescribed by OSFI for each bank individually. During 2021 and 2022 we have complied with all capital requirements imposed by OSFI.

Regulatory capital and capital ratios ($ thousands)	**Basel III 2022 $**	Basel III 2021 $
Capital		
Tier 1 capital	**271,506**	239,387
Total capital	**271,506**	239,387
Risk-weighted assets		
Credit risk	**1,941,724**	1,695,325
Operational risk	**85,747**	76,084
Total risk weighted assets	**2,027,471**	1,771,409
Capital ratios		
Tier 1 capital	**13.39%**	13.51%
Leverage ratio	**9.96%**	10.09%

General Bank of Canada is privately held, and issues only one class of capital to a private shareholder, and as such any further disclosure of the terms and conditions of all capital instruments is not relevant.

Basel III Capital Disclosure

With the implementation of revised guidelines (Basel III) certain classes of capital will be phased out, and/or renamed. The net effect of Basel III on the bank's capital management will be minimal. As a non domestically systemically important bank, General Bank of Canada is required to disclose a modified version of its capital and leverage structure as detailed below.

General Bank of Canada
Regulatory Capital
As at June 30, 2023
(in thousands of Canadian dollars, except %)

	Regulatory Capital and Ratios	
		Q2 2023
		Amounts
	Common Equity Tier 1 capital: instruments and reserves (000's)	
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	135,000
2	Retained earnings	151,171
3	Accumulated other comprehensive income (and other reserves)	(1,555)
6	**Common Equity Tier 1 capital before regulatory adjustments**	284,616
	Common Equity Tier 1 capital: regulatory adjustments	
28	Total regulatory adjustments to Common Equity Tier 1	(50)
29	**Common Equity Tier 1 capital (CET1)**	284,566
	Additional Tier 1 capital: regulatory adjustments	
45	**Tier 1 capital (T1 = CET1 + AT1)**	284,566
	Tier 2 capital: instruments and allowances	
50	Collective allowances	7,393
51	**Tier 2 capital before regulatory adjustments**	7,393
	Tier 2 capital: regulatory adjustments	
58	**Tier 2 capital (T2)**	7,393
59	**Total capital (TC = T1 + T2)**	291,959
60	**Total risk-weighted assets**	2,146,673
	Capital Ratios	
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	13.26%
62	Tier 1 (as percentage of risk-weighted assets)	13.26%
63	Total capital (as percentage of risk-weighted assets)	13.60%
	OSFI target	
69	Common Equity Tier 1 capital target ratio	7.50%
70	Tier 1 capital target ratio	8.50%
71	Total capital target ratio	10.50%

General Bank of Canada
Leverage Ratio Common Disclosure
As at June 30, 2023
(in thousands of Canadian dollars, except %)

	Item	Leverage Ratio	
	On-balance sheet exposures	Q2 2023	Q1 2023
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	2,900,407	2,728,906
4	(Asset amounts deducted in determining Tier 1 capital)	(50)	(55)
5	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 to 4)**	**2,900,357**	**2,728,851**
	Derivative exposures		
6	Replacement cost associated with all derivative transactions	475	1,693
11	**Total derivative exposures (sum of lines 6 to 10)**	**475**	**1,693**
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	86,297	85,981
18	(Adjustments for conversion to credit equivalent amounts)	(51,778)	(43,124)
19	**Off-balance sheet items** (sum of lines 17 and 18)	**34,519**	**42,857**
	Capital and Total Exposures		
20	**Tier 1 capital**	**284,566**	**277,810**
21	**Total Exposures** (sum of lines 5, 11, 16 and 19)	**2,935,351**	**2,773,401**
	Leverage Ratios		
22	**Basel III leverage ratio**	**9.69%**	**10.02%**

Additional bank financial information can be found on OSFI’s website at:

http://www.osfi-bsif.gc.ca/Eng/wt-ow/Pages/FINDAT.aspx

Risk Management

Effective risk management plays an essential role in the Bank's ability to remain financially sound and responsible through the identification, assessment, management and monitoring of all applicable types of risk. The Bank is primarily exposed to credit, liquidity, interest rate and operational types of risk.

Senior management is responsible for defining the framework for identifying risks and developing the appropriate risk management policies. The Board of Directors, both directly or through its committees, reviews and approves key policies, and implements specific reporting procedures to enable them to monitor compliance over significant areas of risk.

Credit risk

The nature of General Bank of Canada’s two lending product lines, retail automotive lending and commercial lending, create an exposure to credit risk resulting from the possible defaults in payment by borrowers.

The retail loan portfolio consists of secured automotive loans for both new and used automobiles purchased through authorized automotive dealerships. As a result, the Bank’s primary credit risk relates to the potential for financial loss resulting from the failure of a borrower to fully honour their financial or contractual obligations, such as the failure to repay principal and/or interest on the loan to the Bank. The Bank mitigates this risk primarily by conducting due diligence on each borrower and by focusing on borrowers with established credit profiles with a demonstrable history of satisfactory repayment.

The commercial loan portfolio consists of secured loans for commercial real estate and fixed wing and rotary aircraft. As a result, the Bank’s primary credit risk relates to the potential for financial loss resulting from the failure of a borrower to fully honour their financial or contractual obligations, such as failure to repay principal and/or interest on a loan to the Bank. Construction and refinancing risk within the commercial real estate portfolio also contribute to the Bank’s overall credit risk profile. The Bank mitigates this risk primarily by conducting due diligence on each borrower and by focusing on borrowers with established business backgrounds and extensive experience in commercial real estate.

The Bank’s credit risk profile has remained relatively stable through multiple economic cycles, which is representative of an overall low credit risk profile. The Bank continues to monitor the macroeconomic environment and incorporate appropriate stress testing to identify potential impacts to the credit risk profile.

The Bank manages its credit risk exposure by pursuing a lending strategy which balances risk and return, while maintaining an overall high-quality portfolio through the application of prudent lending limits and practices. The Bank’s credit risk strategy is reflective of its philosophy and risk appetite for credit risk. In consideration of the preference for consistent, stable performance the Bank’s focus is on credit quality over loan growth.

The Chief Risk Officer is responsible for the Bank’s credit risk policies. Credit risk limits are established in consultation with the Chief Risk Officer, Chief Executive Officer, and President in consideration of the Bank’s credit risk appetite, which is defined in quantitative and qualitative terms in the Bank’s Risk Appetite Statement. Credit risks policies are approved on an annual basis by the Board of Directors.

The Bank has developed and implemented risk management governance models and frameworks that promote the proactive risk-based management of credit risks through the Bank and ensure that effective processes and controls are in place to manage risk in accordance with the Bank’s Risk Appetite Statement.

The Board of Directors has ultimate oversight responsibility for understanding the nature and level of credit risk facing the Bank. The Board of Directors must ensure that Senior Management has implemented a risk management program that is commensurate with the Bank's activities and that the necessary authorities, policies, procedures, and controls have been adopted to protect the Bank from undue credit risk.

The Board has delegated the authority to approve retail credit transactions to the President, who has sub-delegated this authority to individual credit analysts. Analysts are assigned an authority limit based on their qualifications, performance, and level of experience. The Board has delegated responsibility for credit risk adjudication for commercial credit to various sub-committees to ensure appropriate oversight and segregation of duties occurs throughout the credit adjudication process.

The Risk Management group is responsible for the oversight of the implementation of credit risk policies and for monitoring compliance with policies. As the second line of defence, the Risk Management group is also responsible to provide guidance and effective challenge to business units responsible for the management of credit risks in day-to-day activities.

The Bank's risk operating model is well defined and explicit in terms of both functional and individual roles, responsibilities and accountabilities that should be observed. The Bank utilizes the three lines of defence model which is a risk governance framework that provides structure around risk management and internal controls designed to facilitate an effective risk management system. When implemented effectively, the model supports the Bank's achievement of strategic objectives and facilitates strong governance and risk management. Within the model each of the three lines plays a distinct role in the Bank's control environment and managing risk.

In consideration of the proportionality of the Bank, credit risk management is led by the respective business units responsible for the day-to-day management of the loan portfolios and is considered a first line of defence function. The Risk Management group, which includes the Compliance group, is the second line of defence and responsible for oversight activities that objectively identify, measure, monitor and report credit risk and compliance on an enterprise basis. The Risk Management group is responsible for confirming that credit risk management practices and processes exist and are integrated into the overall credit risk management of the Bank. Internal audit is the Bank's third line of defence and is accountable to periodically examine, evaluate, and report to both Senior Management and the Board of Directors on the adequacy and effectiveness of credit risk management program and processes.

Reporting plays a critical role in the overall management and risk mitigation of the Bank's loan portfolios. The first line of defence has several reporting responsibilities with respect to its credit risk activities and overall credit risk management. The first line of defence reports into both the Risk Management group and Senior Management on a regular basis focusing on performance trends, actual results compared to projections, underwriting and loan documentation activity, delinquency trends, approved tolerance limits, key risk indicators, and any instances of non-compliance with the Bank's credit risk policies. Senior Management provides reporting to the Board of Directors on a quarterly basis on loan portfolios in the context of overall quality, tolerance and limit breaches, variance from the

Bank's risk philosophy and any exceptions to policies and limits that require Board approval. Reporting to the Board of Directors is in such a manner that the Board can understand the overall credit risk of the loan portfolios to the Bank and their adherence to the risk appetite statement.

Liquidity risk

Liquidity risk is the risk that there will be insufficient cash to meet the Bank's obligations as they come due. This risk can occur from both fluctuations in cash flows from lending, deposit taking and investment activities. Effective liquidity management ensures that an adequate amount of cash is available to honour all existing and short term cash outflow obligations. The Bank's liquidity policy includes the ongoing measurement and forecast of cash flows, the maintenance of a pool of high quality liquid assets, and the monitoring of the Bank's loan portfolio diversification as to geographic concentration. The Bank matches its asset and liability maturities so that assets reprice and liabilities mature at approximately the same time.

Market risk

Market risk is the impact on earnings resulting from changes in financial market variables, such as interest rates and foreign exchange rates. Market risk arises when making loans, taking deposits, and making investments. The Bank does not undertake trading activities and therefore does not have risk related to activities such as market making, arbitrage or proprietary trading. The Bank does not hold or trade in foreign currencies, and consequently is not exposed to foreign exchange risk. The Bank's material market risk is confined to interest rates, as discussed below.

Interest rate risk

Interest rate risk is the impact on net interest income, both current and future, resulting from a change in market interest rates. This risk and potential variability in earnings arises primarily when cash flows stemming from interest sensitive assets and liabilities have different repricing dates. A positive gap arises when interest sensitive assets exceed interest sensitive liabilities for a specific maturity or when interest sensitive assets reprice earlier than interest sensitive liabilities. A negative gap arises when the opposite occurs. The impact of a change in market interest rates on earnings will depend on the magnitude of the change, on the size and maturity structure of the cumulative interest rate gap position and the management of those positions over time.

To mitigate the risk of changing interest rates with respect to variable rate commercial loans funded predominantly with fixed rate deposits, the Bank has entered into interest rate swaps.

($ thousands)	Floating rate to 3 months $	3-6 months $	6-12 months $	1-2 years $	2-5 years $	Over 5 years $	As at December 31, 2022 Non-interest sensitive $	Total $
Assets								
Cash	392,013	–	–	–	–	–	–	392,013
Loans	672,794	179,345	299,045	434,812	557,531	47,919	37,880	2,229,326
Marketable securities	5,443	447	5,900	10,480	4,813	–	(2,219)	24,864
Other	–						33,609	33,609
Total	1,070,250	179,792	304,945	445,292	562,344	47,919	69,270	2,679,812
Liabilities								
Deposits	128,705	192,552	373,873	534,167	704,735	–	–	1,934,032
Interest rate swaps *	240,000	–	–	(130,000)	(110,000)	–	–	–
Secured debt	420,813	–	–	–	–	–	–	420,813
Other	–	–	–	–	–	–	53,835	53,835
Total	789,518	192,552	373,873	404,167	594,735	–	53,835	2,408,680
Interest Rate Sensitive Gap	280,732	(12,760)	(68,928)	41,125	(32,391)	47,919		
Cumulative Gap	280,732	267,972	199,044	240,169	207,778	255,697		
Cumulative Gap as a Percentage of Total Assets	10%	10%	7%	9%	8%	10%		

* Interest rate swaps are included in this table at the notional amount

Operational risk

Operational risk is the potential for loss resulting from some external event, human error or inadequacy or failure of processes, procedures or controls. Operational risk can affect the Bank's financial position, reputation, competitive position, and regulatory position. The Bank is exposed to operational risk from internal business processes and activities as well as from activities that are outsourced. The financial measure of operational risk is actual losses incurred. There was no material operational risk losses incurred during the year ended December 31, 2022. The Bank mitigates operational risk by implementing policies and procedure directed at identified risks, employing knowledgeable and experienced senior managers, segregating duties among employees, training all employees with respect to effective risk management, and continually reviewing and upgrading policies and procedures.

Senior management is responsible for defining the framework for identifying risks and developing the appropriate risk management policies. The Board of Directors, both directly or through its committees, reviews and approves key policies, and implements specific reporting procedures to enable them to monitor compliance over significant areas of risk.

Other Factors

Concentration Risk

Exposure to single borrowers is limited by policy to $150,000 in the case of retail automotive loans, with non retail automotive credit exposure limited to a range of 12.5% to 15% of capital, depending on individual lending circumstance. Geographically, the bank's loan book is distributed 29% in British Columbia, 25% in Alberta, 9% in Saskatchewan, 8% in Manitoba, and 29% in Ontario.

Compensation Practices

The Bank's senior management personnel include all directors, and executive management (President, Vice President, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Compliance Officer, and Chief Anti-Money Laundering Officer). The bank does not have a separate remuneration committee, nor does it have the resources to implement a functional deferral and performance adjustment scheme.

The President is paid a base salary by the bank, plus an annual amount directly by the shareholder. The payment of the annual bonus to the President is not paid by the Bank, therefore its composition is immaterial to parties other than the sole shareholder. The Chief Financial Officer, Chief Risk Officer and Chief Compliance Officer along with Chief Anti-Monday Laundering Officer are compensated based on published data from leading Canadian recruitment firms. The Vice President and Chief Executive Officer are allocated notional amounts roughly equivalent to the pro-rated time they serve in these positions relative to other duties they perform for related companies. Their compensation is paid by entities other than the Bank. Unaffiliated Directors are paid an annual retainer plus a stipend for each meeting they attend.

Compensation of certain key management personnel as described above for the year may be sourced by companies other than the Bank and are summarized as follows:

	2022 **$**	2021 $
Total compensation of key management personnel	**3,758,038**	1,884,000