

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 primarily a single line of business of fixed rate indirect auto financing, funding its operations through the issuance of fixed rate Guaranteed Investment Certificates with terms ranging from 6 months to 5 years. The Bank's treasury function is kept intentionally straight forward, with asset and liability maturity bands constantly monitored and matched within self-imposed limits. The Bank does not expose itself to any counterparty risk, derivative contracts, swaps, or hedge contracts. Nor does the Bank have any currency risk or international exposure. 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 single line of business and any potential competitive disadvantage that could arise from disclosure.

Capital and Capital Management

Effective the first quarter of 2013, we are required to calculate our capital ratios and assets-to-capital multiple using the Basel III framework. Under Basel III, 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 capital 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. To manage the impact of Basel III regulatory adjustments, these adjustments are being phased in over a five year transition period. Consequently, the Bank now reports on both the "transitional" and "all in" capital ratios, with the Bank being held to the "all in" ratio for determining minimum capital targets.

Regulatory capital ratios are calculated by dividing Total capital and Tier 1 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. To follow is a summary of the Bank's asset classes, corresponding risk weighted value, and capital allocated.

	December 31, 2013	
<u>Asset Class</u>	<u>Risk Weighted Value</u>	<u>Capital Allocated</u>
Cash and equivalents	\$7,051,993	\$846,239
Loans receivable, net + accrued interest	432,365,531	51,883,864
Commercial loan receivable, net + accrued interest	8,385,613	1,006,274
Mortgage loan receivable, net	629,938	75,593
Preferred Shares (@100%)(<10% regulatory capital) *	6,301,660	945,249
Preferred Shares (@200%)(>10% regulatory capital) *	199,984	29,998
All other	13,408,525	1,609,023
Total Adjusted Risk-Weighted Assets	<u>\$468,343,243</u>	<u>\$56,396,239</u>
Operational Risk **	22,815,925	2,737,911
Total Risk-Weighted Assets	<u>\$491,159,168</u>	<u>\$59,134,150</u>
Surplus Capital		<u>\$4,171,205</u>
Total Capital		<u>\$63,305,355</u>

* Capital allocated at 15%

** The Bank uses the Basic Indicator operational risk approach

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%, and a Total capital ratio of greater than or equal to 10%. In addition, Canadian banks are required to ensure that their assets-to-capital multiple, which is calculated by dividing gross un-adjusted assets by Total capital, does not exceed a maximum, as prescribed by OSFI for each bank individually.

The Bank prepares a three year capital plan each year. The Bank has modeled revised capital requirements to be in compliance with Basel III. During 2013 and 2012, we have complied with all capital requirements imposed by OSFI. The Bank's asset-to-capital multiple remains below the maximum prescribed by OSFI as well as below the internally set maximum. Below is the Bank's capital structure, as at December 31, 2013:

Regulatory capital and capital ratios

(\$ thousands)	<u>Basel III</u> <u>2013</u>	<u>Basel II</u> <u>2012</u>
Capital		
Tier 1 capital	\$ 63,305	\$ 49,748
Total capital	63,305	49,766
Risk-weighted assets		
Credit risk	\$ 468,343	\$ 374,080
Operational risk	22,816	18,836
Total risk weighted assets	\$ 491,159	\$ 392,916
Capital ratios		
Tier 1 capital	12.89%	12.66%
Total capital "transitional"	12.89%	12.67%
Total capital "all in"	12.82%	NR *
Asset to capital multiple	10.12X	10.22X

* Not reported as this measure was not required in 2012.

General Bank of Canada is privately held, and issues only one class of capital to that 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) being phased in over the next several years, certain classes of Capital will be phased out, and certain types of capital will be renamed. The net effect of Basel III on the bank's capital management will be minimal. As a non systemically important bank, General Bank of Canada is required to disclose a modified version of its capital structure as detailed below.

General Bank of Canada

Capital Disclosure as at December 31, 2013

Note: This disclosure follows the template provided in OSFI's Public Capital Disclosure Requirements related to Basel III Pillar 3 (Annex 5). The template has been modified to exclude line items that are not relevant. However, for purposes of comparability, row numbering has been maintained from the OSFI template.

Common Equity Tier 1 Capital: Instruments and reserves

		All-in	Transitional
1	Directly issued common share capital	\$45,000,000	\$45,000,000
2	Retained Earnings	\$18,391,733	\$18,391,733
3	Accumulated other comprehensive income	(\$86,378)	(\$86,378)
6	Common Equity Tier 1 before regulatory adjustments	\$63,305,355	\$63,305,355
28	Total regulatory adjustments to CET1	(\$388,749)	\$0
29	Common Equity Tier 1 (CET1)	\$62,916,606	\$63,305,355

44	Additional Tier 1 Capital	\$0	\$0
45	Tier 1 Capital	\$62,916,606	\$63,305,355
Tier 2 Capital			
58	Tier 2 Capital	\$0	\$0
59	Total Capital	\$62,916,606	\$63,305,355
60	Risk Weighted Assets	\$490,670,431	\$491,159,168
Capital Ratios			
61	Common Equity Tier 1 (as percentage of Risk Weighted Assets)	12.82%	12.89%
62	Tier 1 (as a percentage of Risk Weighted Assets)	12.82%	12.89%
63	Total Capital (as percentage of Risk Weighted Assets)	12.82%	12.89%
OSFI All In Target			
69	CET1 all in Target Ratio	12%	12%
70	Tier 1 all in Target ratio	12%	12%
71	Total Capital all in Target ratio	12%	12%

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

Credit risk is the risk that a financial loss will be incurred as a result of the failure of a customer to honour their contractual commitment or obligation to the Bank. To help mitigate this risk, the Bank has established a maximum loan amount limit of \$150,000, a large exposure limit of 5% of capital, a maximum advance ratio of approximately 125% of wholesale value and lending parameters that clearly define the type, nature and qualification requirements of a prospective debtor. Any loan approvals falling outside of the Bank's established lending parameters require the post concurrence of senior management. A standardized credit risk rating classification guideline is used to monitor the ongoing quality of the loan portfolio upon initial approval, renewal, or when information becomes available indicating a material adverse change in the customers' financial affairs. Loan delinquency is reviewed by

senior management on a weekly basis. Loans that have fallen more than 30 days into arrears are assessed by senior management to facilitate the early recognition of problem accounts and implementation of the steps necessary to secure the Bank's interest in the loan collateral.

Credit losses are managed by way of both a Collective Loss Allowance, representing anticipated but as yet unidentified losses in the loan book, and by Specific Loan Loss Allowances (SLLA), wherein a specific charge is taken against a loan that has been identified by Management as being impaired.

Twice each year, an assessment of the adequacy of the Collective Allowance is performed. Management and the Bank's external auditors are satisfied that the current Collective Allowance and the underlying process represent a very conservative approach to managing Collective Allowances. In addition, Management is very conservative in managing loan delinquency and allocating SLLAs. Every loan that is in excess of 30 days past due has either a definitive payment arrangement in place, or a SLLA. Once assigned a SLLA, the allowance remains until the loan is either assigned for repossession, or the borrower brings the loan current and keeps it current for a period of four months. Approximately 30% of the Bank's total SLLA is attributed to loans that are in fact current. For accounting purposes, any loan that carries a SLLA is treated as impaired.

The credit risk related to the Bank's preferred shares is that an issuer experiences financial difficulties and is unable to pay its preferred share obligations as they come due. To help mitigate this risk the Bank has purchased preferred shares from chartered banks (rated P-2 High).

In the event an interested party wishes to obtain additional information, they can request it in writing, stating the reason for their request, and their intended use of the information. Management will consider the request, and reply as deemed appropriate.

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 raises deposits via a network of independent deposit brokers as well as securities dealers and mutual fund dealers. 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. To manage interest rate risk exposure by managing the size of the gap positions between interest sensitive assets and interest sensitive liabilities. The impact of a change in market interest rates on earnings will depend on the magnitude and the rate of the change, on the size and maturity structure of the cumulative interest rate gap position and the management of those positions over time.

Changes in interest rates affect market prices for preferred shares which pay quarterly dividends at a fixed rate of interest. Changes in market interest rates increase or decrease market prices for preferred shares, resulting in a gain or loss to be recognized in other comprehensive income on a monthly basis. The intent of the preferred share purchase was to buy and hold the shares until maturity therefore fluctuations in share price will only be temporary.

The Bank is exposed to interest rate risk resulting from a difference, or gap, between the maturity or repricing dates of interest sensitive assets and liabilities. The following table summarizes this gap position as at December 31, 2013, for a selected group of time intervals. Amounts denoted in brackets represent an excess of liabilities over assets or a negative gap position.

As as December 31, 2013

(\$ thousands)	Floating Rate to 3 Months	3-6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Non- Interest Sensitive	Total
Assets								
Cash	\$ 20,139	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,139
Loans	56,549	55,997	101,916	163,861	196,727	12,627	9,206	596,882
Marketable securities	-	-	6,402	-	-	-	-	6,402
GICs	-	5,000	10,000	-	-	-	-	15,000
Other	-	-	-	-	-	-	2,224	2,224
Total	76,688	60,997	118,318	163,861	196,727	12,627	11,430	640,647
Liabilities								
Deposits	45,012	55,656	124,529	144,508	194,886	-	(2,403)	562,188
Other	-	-	-	-	-	-	15,153	15,153
Total	\$ 45,012	\$ 55,656	\$ 124,529	\$ 144,508	\$ 194,886	\$ -	\$ 12,750	\$ 577,341
Interest Rate								
Sensitive Gap	\$ 31,676	\$ 5,341	\$ (6,211)	\$ 19,353	\$ 1,841	\$ 12,627		
Cumulative								
Gap	\$ 31,676	\$ 37,017	\$ 30,806	\$ 50,159	\$ 52,000	\$ 64,627		
Cumulative Gap as a Percentage of Total Assets								
	5%	6%	5%	8%	8%	10%		

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, 2013. 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.

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.

Other Factors

Securitization: The bank does not securitize any of its loan portfolio. All loans originated are retained on the banks books until the earlier of maturity or early payout.

Counterparty Credit Risk: The bank has no exposure to counterparty credit risk.

Concentration Risk: The bank is exposed to concentration risk by virtue of its single line of business. Exposure to single borrowers is limited by policy to \$150,000 in the case of retail automotive loans, and to 5% of capital for any non retail automotive credit exposure. Geographically, the bank’s loan book is distributed 39% in British Columbia, 30% in Alberta, 11% in Saskatchewan, 9% in Manitoba, and 11% in Ontario.

Compensation Practices

The Bank’s senior management personnel include all directors, and executive management (President, Vice President, Chief Operating Officer, Chief Financial 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 Chief Operating Officer is paid a base salary by the bank, plus an annual amount directly by the shareholder, based on criteria established by the shareholder from time to time, commensurate with the shareholders expectations and appetite for return and risk. The payment of the annual bonus to the Chief Operating Officer is not paid by the Bank, therefore its composition is immaterial to parties other than the sole shareholder. The total compensation for the Chief Operating Officer is however aligned roughly with a regional executive position for larger financial institutions. The Chief Financial Officer is paid a base salary and annual discretionary bonus to align his or her salary to a mid-point range for small companies based on published data from leading Canadian recruitment firms. The President, Vice President and Chief Anti Money Laundering 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. The five unaffiliated directors were paid a total of \$62,000 in 2013.

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:

	2013	2012
Salary and Short-term employee benefits	\$ 822,000	\$ 683,000
Total compensation of key management personnel	\$ 822,000	\$ 683,000