

# 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 up 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, capital ratios and the assets-to-capital multiple were calculated 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, commonly referred to as the "transitional" 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, where the "all in" ratio incorporates the full future impact of all transitional adjustments.

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.

<b>December 31, 2014</b>		
<u>Asset Class</u>	<u>Risk Weighted Value</u>	<u>Capital Allocated</u>
Cash and equivalents	\$ 3,825,345	\$ 478,168
Consumer retail loans	506,494,206	63,311,776
Commercial loans	9,459,536	1,182,442
Mortgage loans	912,935	114,117
Preferred Shares (<10% regulatory capital)	2,451,000	306,375
All other	17,236,158	2,154,520
Total Adjusted Risk-Weighted Assets	540,379,180	67,547,398
Operational Risk	26,146,838	3,268,355
Total Risk-Weighted Assets	\$ 566,526,018	\$ 70,815,752
Surplus Capital		\$ 3,036,175
Total Capital		\$ 73,851,927

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 10.5%. 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. During 2014 and 2013 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, 2014:

<b>Regulatory capital and capital ratios</b> (\$ thousands)	<b>Basel III</b> <b>2014</b>	Basel III <u>2013</u>
Capital		
Tier 1 capital	\$ 73,822	\$ 63,305
Total capital	<b>73,822</b>	63,305
Risk-weighted assets		
Credit risk	\$ 540,379	\$ 468,343
Operational risk	<b>26,147</b>	22,816
Total risk weighted assets	<b>\$ 566,526</b>	\$ 491,159
Capital ratios		
Tier 1 capital	<b>13.03%</b>	12.89%
Total capital "transitional"	<b>13.03%</b>	12.89%
Total capital "all in"	<b>13.01%</b>	12.82%
Asset to capital multiple	<b>9.95X</b>	10.12X

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 domestically 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, 2014

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	\$50,000,000	\$50,000,000
2	Retained Earnings	\$23,895,628	\$23,895,628
3	Accumulated other comprehensive income	(43,702)	(43,702)
6	Common Equity Tier 1 before regulatory adjustments	\$73,851,926	\$73,851,926
28	Total regulatory adjustments to CET1	(\$152,355)	(\$30,471)
29	Common Equity Tier 1 (CET1)	\$73,699,571	\$73,821,455
44	Additional Tier 1 Capital	\$0	\$0
45	Tier 1 Capital	\$73,699,571	\$73,821,455
<b>Tier 2 Capital</b>			
58	Tier 2 Capital	\$0	\$0
59	Total Capital	\$73,699,571	\$73,821,455
60	Risk Weighted Assets	\$566,404,974	\$566,526,017
<b>Capital Ratios</b>			
61	Common Equity Tier 1 (as percentage of Risk Weighted Assets)	13.01%	13.03%
62	Tier 1 (as a percentage of Risk Weighted Assets)	13.01%	13.03%
63	Total Capital (as percentage of Risk Weighted Assets)	13.01%	13.03%
<b>OSFI All In Target</b>			
69	CET1 all in Target Ratio	12.50%	12.50%
70	Tier 1 all in Target ratio	12.50%	12.50%
71	Total Capital all in Target ratio	12.50%	12.50%

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 the lesser of 10% of capital or ~\$7,000,000, a maximum advance ratio of approximately 125% of wholesale value for used vehicles and 100% of MSRP for new vehicles, 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. Loans that have fallen more than 45 days into arrears are brought to the attention of a senior credit manager to facilitate the early recognition of problem accounts and implementation of the steps necessary to secure the Bank's interest in the loan collateral.

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 rated as P-2.

### 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 has in place a liquidity contingency plan that includes a \$5,000,000 line of credit with a regulated financial institution. 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.

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.

As as December 31, 2014								
(\$ 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
<b>Assets</b>								
Cash	\$ 14,096	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,096
Loans	66,230	67,227	118,649	191,267	229,694	14,964	12,780	700,812
Marketable securities	9,993	-	-	-	2,451	-	-	12,444
GICs	-	-	5,000	-	-	-	-	5,000
Other	-	-	-	-	-	-	2,235	2,235
<b>Total</b>	<b>90,319</b>	<b>67,227</b>	<b>123,649</b>	<b>191,267</b>	<b>232,145</b>	<b>14,964</b>	<b>15,015</b>	<b>734,586</b>
<b>Liabilities</b>								
Deposits	58,981	61,492	125,452	171,131	227,669	-	(2,714)	642,011
Other	-	-	-	-	-	-	18,723	18,723
<b>Total</b>	<b>\$ 58,981</b>	<b>\$ 61,492</b>	<b>\$ 125,452</b>	<b>\$ 171,131</b>	<b>\$ 227,669</b>	<b>\$ -</b>	<b>\$ 16,009</b>	<b>\$ 660,734</b>
<b>Interest Rate</b>								
<b>Sensitive Gap</b>	<b>\$ 31,338</b>	<b>\$ 5,735</b>	<b>\$ (1,803)</b>	<b>\$ 20,136</b>	<b>\$ 4,476</b>	<b>\$ 14,964</b>		
<b>Cumulative</b>								
<b>Gap</b>	<b>\$ 31,338</b>	<b>\$ 37,073</b>	<b>\$ 35,270</b>	<b>\$ 55,406</b>	<b>\$ 59,882</b>	<b>\$ 74,846</b>		
<b>Cumulative Gap as a Percentage of</b>								
<b>Total Assets</b>	<b>4%</b>	<b>5%</b>	<b>5%</b>	<b>8%</b>	<b>8%</b>	<b>10%</b>		

## 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, 2014. 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 38% in British Columbia, 28% in Alberta, 11% in Saskatchewan, 8% in Manitoba, and 15% 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 \$64,000 in 2014.

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:

	<u>2014</u>	<u>2013</u>
Short-term employee benefits	\$ 781,000	\$ 822,000
<b>Total compensation of key management personnel</b>	<b>\$ 781,000</b>	<b>\$ 822,000</b>