

# General Bank of Canada

## Regulatory Disclosures

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

## Description of the Bank

The 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 five years. The Bank's treasury function is kept intentionally straight forward, with asset and liability maturity bands constantly monitored and matched to 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 carried out in Canada.

The Bank has a robust and effective system of controls in place to assess and manage risk across various spectra, including credit risk, interest rate risk, liquidity risk, market risk, and operational (including regulatory) risk.

## Capital Management

Capital levels for Canadian banks are regulated pursuant to guidelines issued by OSFI, based on standards issued by the Bank for International Settlements, Basel Committee of Banking Supervisors. Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 capital comprises the more permanent components of capital and consists primarily of common shareholders' equity, non-cumulative preferred shares (the majority of which do not have conversion features into common shares) and the eligible amount of innovative capital instruments. In addition, goodwill and other items prescribed by OSFI are deducted from Tier 1 capital. Tier 2 capital consists mainly of subordinated debentures, trust subordinated notes, the eligible amount of innovative capital instruments that could not be included in Tier 1 capital, and an eligible portion of the total collective provision for credit losses, less OSFI-prescribed deductions. Total capital is defined as the sum of Tier 1 and Tier 2 capital.

Regulatory capital ratios are calculated by dividing Tier 1 and total capital by risk-weighted assets ("RWA"). OSFI requires banks to meet minimum risk-based capital requirements for exposures to credit

risk, operational risk, and where they have significant trading activity, market risk. RWA is calculated for each of these risk types and added together to determine total RWA.

In addition, OSFI formally establishes risk-based capital targets for deposit-taking institutions in Canada. These targets are currently a Tier 1 capital ratio of 7% and a Total capital ratio of 10%. In addition to the Tier 1 and Total capital ratios Canadian banks are required to ensure that their assets-to-capital multiple, which is calculated by dividing gross adjusted assets by total capital, does not exceed a maximum level as prescribed by OSFI. The Bank manages its asset to capital ratio internally to 85% of the maximum allowed along with its Tier 1 and Total capital ratios at 115% and 120% respectively of the minimums allowed. The assets-to-capital multiple remains below the maximum prescribed by OSFI as well as below the internally set maximum.

There have been no fundamental changes to capital management for 2012. The regulatory capital ratios for 2011 and 2012 have been calculated using Basel II. For the year ended December 31, 2012, the Bank achieved its capital management objectives.

A revised capital framework (Basel III) is effective for Canadian financial institutions beginning on January 1, 2013. Required minimum regulatory capital ratios, including a 250 basis point capital conservation buffer, will be 7.0% tangible common equity Tier 1 as at January 1, 2013 and 8.5% Tier 1 and 10.5% total capital as at January 1, 2014. The Basel III rules provide for transitional adjustments whereby certain aspects of the new rules will be phased in between 2013 and 2019. The only available transition adjustment in the Basel III capital standards permitted by OSFI for Canadian banks relates to the multi-year phase out of non-qualifying capital instruments, of which the bank has none..

The bank prepares a three year capital plan each year, which includes the provision of an increase in its internal minimum capital limits effective January 2014. The Bank has modeled revised capital requirements to be in compliance with Basel III.

As at December 31, 2012, the Bank's capital structure is as follows:

**Regulatory capital and capital ratios**

(\$ thousands)	<b>Basel II December 31, 2012</b>	Basel II December 31, 2011
Capital		
Tier 1 capital	\$ 49,748	\$ 38,058
Total capital	<b>49,766</b>	38,087
Risk-weighted assets		
Credit risk	\$ 374,080	\$ 297,471
Operational risk	<b>18,836</b>	15,153
Total risk weighted assets	<b>\$ 392,916</b>	\$ 312,624
Capital ratios		
Tier 1 capital	<b>12.66%</b>	12.17%
Total capital	<b>12.67%</b>	12.18%
Asset to capital multiple	<b>10.22X</b>	10.73X

## 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.

<b>General Bank of Canada</b>		
<b>Capital Disclosure as at June 30, 2013</b>		
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.		
<b>Common Equity Tier 1 Capital: Instruments and reserves</b>		
1	Directly issued common share capital	\$37,500,000
2	Retained Earnings	\$14,986,522
3	Accumulated other comprehensive income	\$21,869
6	Common Equity Tier 1 before regulatory adjustments	\$52,072,556
28	Total regulatory adjustments to CET1	\$0
29	Common Equity Tier 1 (CET1)	\$52,508,391
44	Additional Tier 1 Capital	\$0
45	Tier 1 Capital	\$52,508,391
<b>Tier 2 Capital</b>		
58	Tier 2 Capital	\$0
59	Total Capital	\$52,508,391
60	Risk Weighted Assets	\$416,258,531
<b>Capital Ratios</b>		
61	Common Equity Tier 1 (as percentage of Risk Weighted Assets)	12.53%
62	Tier 1 (as a percentage of Risk Weighted Assets)	12.53%
63	Total Capital (as percentage of Risk Weighted Assets)	12.53%
<b>OSFI All In Target</b>		
69	CET1 all in Target Ratio	12%
70	Tier 1 all in Target ratio	12%
71	Total Capital all in Target ratio	12%

## 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 \$100,000, 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. Due to competitive concerns, the actual amount of Collective Loss Allowance and SLLA is not disclosed. However, as a general statement, 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 Pfd -2 low).

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 has in place a liquidity contingency plan that includes \$15,839,287 of lines of credit with regulated financial institutions (Note 13). 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, 2012, for a selected group of time intervals. Amounts denoted in brackets represent an excess of liabilities over assets or a negative gap position.

As at December 31, 2012								
	<b>Floating</b>						<b>Non-</b>	
(\$ thousands)	<b>Rate to</b>	<b>3-6</b>	<b>6-12</b>	<b>1-2</b>	<b>2-5</b>	<b>Over</b>	<b>Interest</b>	<b>Total</b>
	<b>3 Months</b>	<b>Months</b>	<b>Months</b>	<b>Years</b>	<b>Years</b>	<b>5 Years</b>	<b>Sensitive</b>	
<b>Assets</b>								
Cash	\$ 3,497	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,497
Loans	46,464	46,765	84,416	136,096	158,461	9,508	5,003	486,713
Marketable securities	-	-	-	-	1,291	-	-	1,291
Short Term Inv	-	5,000	10,000	-	-	-	-	15,000
Other	-	-	-	-	-	-	2,041	2,041
<b>Total</b>	<b>49,961</b>	<b>51,765</b>	<b>94,416</b>	<b>136,096</b>	<b>159,752</b>	<b>9,508</b>	<b>7,044</b>	<b>508,542</b>
<b>Liabilities</b>								
Deposits	33,577	44,853	84,209	125,537	158,184	130	(1,905)	444,585
Other	-	-	-	-	-	-	14,191	14,191
<b>Total</b>	<b>\$ 33,577</b>	<b>\$ 44,853</b>	<b>\$ 84,209</b>	<b>\$ 125,537</b>	<b>\$ 158,184</b>	<b>\$ 130</b>	<b>\$ 12,286</b>	<b>\$ 458,776</b>
<b>Interest Rate</b>								
<b>Sensitive Gap</b>	<b>\$ 16,384</b>	<b>\$ 6,912</b>	<b>\$ 10,207</b>	<b>\$ 10,559</b>	<b>\$ 1,568</b>	<b>\$ 9,378</b>		
<b>Cumulative</b>								
<b>Gap</b>	<b>\$ 16,384</b>	<b>\$ 23,296</b>	<b>\$ 33,503</b>	<b>\$ 44,062</b>	<b>\$ 45,630</b>	<b>\$ 55,008</b>		
<b>Cumulative Gap as a Percentage of</b>								
<b>Total Assets</b>	<b>3%</b>	<b>5%</b>	<b>7%</b>	<b>9%</b>	<b>9%</b>	<b>11%</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, 2012. 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 \$100,000 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 41% in British Columbia, 33% in Alberta, 11% in Saskatchewan, 8% in Manitoba, and 6% 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 \$60,500 in 2012.

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:

	<b>2012</b>	2,011
Salary and Short-term employee benefits	<b>\$ 683,000</b>	\$ 588,000
<b>Total compensation of key management personnel</b>	<b>\$ 683,000</b>	\$ 588,000