
Basel III Pillar 3 Annual Disclosures

March 31st, 2025

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Document Overview

This document represents the Basel III Pillar 3 disclosures for Fairstone Bank of Canada (the "Bank") as at March 31, 2025, as required under the Office of the Superintendent of Financial Institutions Canada (OSFI)'s Pillar 3 Disclosure Guideline for Small and Medium-Sized Deposit-Taking Institutions (SMSBs) – Guideline (2024). Additional Pillar 3 disclosures are provided on the Bank's "Regulatory Disclosures" webpage. The Bank is considered a Category 1, non-AIRB-approved institution under OSFI's SMSB segmentation category. This report is unaudited, and all numbers presented are in thousands of Canadian dollars, unless otherwise noted.

Reporting Entity

The Bank is a Schedule I Canadian chartered bank governed by the Bank Act (Canada) and is a wholly owned subsidiary of Fairstone Group Inc. (the "Parent" or "FGI"). The Bank, along with its wholly owned subsidiary Fairstone Financial Inc., is a provider of direct lending, card services, auto financing and digital lending.

On January 1, 2025, following satisfaction of all closing conditions, including receipt of required regulatory approvals, FGI acquired Home Capital Group Inc. ("HCG"). Following the acquisition, HCG transferred the shares of its wholly owned subsidiary, Home Trust Corporation ("Home Trust" or "HTC") to the Bank and HCG was amalgamated with FGI, with the amalgamated company retaining the name of Fairstone Group Inc.

Home Trust is a federally regulated corporation, which offers residential and non-residential mortgage lending, securitization of residential mortgage products, consumer lending and credit card services. Home Bank, a wholly-owned subsidiary of Home Trust, is a federally regulated retail bank offering mortgage lending. Home Trust and Home Bank also offer deposits via brokers and financial planners, and through a direct-to-consumer brand, Oaken Financial.

The Bank is not considered a Domestic Systemically Important Bank (D-SIB) by OSFI.

Capital Management

Capital is a key factor in the safety and soundness of a financial institution. A strong capital position assists the Bank in promoting confidence among depositors, creditors and regulators. The Bank's capital management policy governs the quantity and quality of capital held. The objective of the capital management policy is to ensure that adequate capital is available to the Bank to support its strategic and business objectives, absorb potential unexpected losses, meet minimum regulatory capital requirements as stipulated by the OSFI, and enable the allocation of capital for maximum economic benefit. The Asset Liability Committee ("ALCO") reviews compliance with the policy at a minimum on a monthly basis, while the Capital Management Committee ("CMC"), Risk Committee ("RC") and the Board review compliance with the policy on a quarterly basis.

Capital requirements are addressed in the Bank's policy, including the Leverage ratio and the risk-based capital ratios. The Capital Management Committee reviews these ratios on a regular basis, while the Board reviews them quarterly.

Regulatory Capital Position

The Bank, and its subsidiaries Home Trust and Home Bank, calculate capital ratios and regulatory capital based on the capital adequacy requirements issued by OSFI, which are consistent with international standards (Basel III) set by the Bank for International Settlements. As Home Trust is regulated under the Trust and Loan Companies Act (Canada) (TLCA) and Home Bank is regulated under the Bank Act (Canada), Home Trust's ability to accept deposits is limited primarily by its permitted Leverage ratio. In addition, the declaration and payment of dividends by Home Trust to the Bank are subject to restrictions under the TLCA.

Under Basel III, the Bank calculates risk-weighted assets for credit risk using the Standardized Approach and for operational risk using the Simplified Standardized Approach.

The Leverage ratio is a non-risk-adjusted view of a bank's leverage. The Leverage ratio is defined as the Capital Measure divided by the Exposure Measure, with the ratio expressed as a percentage. The Capital Measure is the Tier 1 capital of the Bank. The Exposure Measure consists of on-balance sheet exposures, potential future exposure amounts on derivatives, credit equivalent amounts of certain off-balance sheet commitments and securities financing transactions. The Bank's Leverage ratio is in excess of OSFI's established minimum target, as well as the minimum ratio assigned to the Bank by OSFI and the Bank's internal targets.

The Bank's Common Equity Tier 1, Total Tier 1 and Total capital ratios and Leverage ratio continue to exceed regulatory and internal capital targets. More information on the composition of regulatory capital and the leverage ratio can be found within the Regulatory Supplemental Data section on the Fairstone website.

Risk-weighted assets are determined by applying the OSFI-prescribed rules to on-balance sheet and off-balance sheet exposures. The Bank's securitization activities are not subject to the Basel III securitization framework as they do not involve tranching of credit risk.

Under the Bank's capital and risk management policies, and OSFI's guidelines, the Bank is required to assess the adequacy of current and projected capital resources under expected and stressed conditions. This involves evaluating the Bank's strategy, financial plan and risk appetite; assessing the effectiveness of its risk and capital management practices (including Board and senior management oversight); subjecting the Bank's plans to a range of stress tests; and drawing conclusions about its capital adequacy (including a rigorous review and challenge). Based on the Bank's Internal Capital Adequacy Assessment Process ("ICAAP"), management has concluded that the Bank is adequately capitalized.

Risk Management

Risk Management Overview

Risk management is an essential component of the Bank's strategy, directly affecting the Bank's profitability and return on equity. The Bank continues to invest in risk management practices and resources.

Through the Enterprise Risk Management Framework (the "Framework" or "ERMF") the Bank's approach to risk management is articulated by providing an overview of the principles, requirements, programs, and responsibilities that reinforce the organization's values and commitment to integrating strong risk management principles into its strategic planning process and business operations.

The ERMF reinforces the Bank's risk culture and risk environment and supports a common understanding amongst stakeholders of how the Bank manages risk in each of the following areas:

- Risk Culture
- Risk Inventory
- Risk Appetite
- Governance & Organization
- Program Objectives

The Bank's overall risk management philosophy is to:

- Identify and quantify the principal risks facing us to determine the level of risk we are willing to operate within, based on its overall risk appetite, risk capacity, and risk profile.
- Develop and implement risk management strategies designed to meet our objectives.
- Continuously monitor and regularly report on the principal risks under management.
- Our risk management programs support a strong risk culture that ensures that the attitudes and behaviours related to risk awareness, risk-taking and risk management influence the decisions of management and employees during day-to-day activities.

The objective of effective risk management is to support superior and sustainable business performance. The benefits of effective risk management include, but are not limited to:

- Informed decision making
- Improved deployment of capital
- Reduced volume and severity of surprises and losses
- Improved long term business performance
- Increased stakeholder confidence
- Protected regulatory posture

Risk Management provides timely, accurate and reliable risk reporting to the Board and management committees on compliance to the Risk Appetite Statement ("RAS") and ensures the RAS is reviewed at least annually.

Risk Governance

The Bank's strategies and management of risk are supported by an overall ERMF including frameworks, policies, guidelines and procedures for each major category of risk to which it is exposed. The ERMF reinforces our risk culture and risk environment and supports a common understanding amongst stakeholders of how we manage risk through the identification, assessment, measurement, management and monitoring of risks that may positively or negatively impact the organization as a whole. Risk management is applied in strategy-setting across the enterprise and is designed to provide reasonable assurance that the Bank's objectives can be realized given its stated risk appetite. The goal of the risk management framework is to support superior and sustainable business performance, including informed decision-making, improved deployment of capital, reduced frequency and severity of unanticipated events and losses, improved long-term business performance and increased stakeholder confidence.

Supporting the Bank's risk management structure is a risk and compliance culture and a governance framework, including Board of Directors ("Board") and senior management oversight and an increasingly robust set of risk policies and guidelines reflective of the Bank's risk appetite that sets boundaries for acceptable business strategies, exposures and activities.

Risk and Compliance Culture

The Bank's risk and compliance culture is influenced by many factors, and is supported by the following guiding principles:

Risk Governance

- Alignment and commitment to an effective three lines of defence model, including respective roles, responsibilities, accountabilities and effective challenge that is supported by strong Board oversight.
- An effective system of controls commensurate with the size and complexity of the organization and consistent with regulatory expectations.
- Decision-making is facilitated by engaging all relevant parties in the process to arrive at the best decision for the organization.

Risk Appetite

- The Bank's risk appetite is forward-looking, reflects its strategic and financial objectives and informs enterprise level views and line of business decision-making
- Risk-reward balance is consistent with the Bank's risk appetite.

Accountability

- Risk management structures and advisory capabilities are proactive, pragmatic and add value to the business.
- Business leaders are empowered to manage all aspects of their business and are held accountable for financial and risk results.

Capability

- The lines of business (first line) have the capability (people, information, tools, processes and models) to effectively measure and manage performance, risk and compliance.
- Human capital decisions reflect risk and compliance competencies and behaviours.

Tone from the Top

- Board and management lead by example and promote adherence to the Bank's Risk Appetite and compliance requirements, as well as a continuous improvement and learning culture.
- Proportionate disciplinary actions are taken, when necessary, in response to compliance and internal policy breaches and Code of Conduct and Ethics violations.

Communication

- Risk and compliance culture is actively promoted (formally and informally) through multiple modes of communication and training to internal and external stakeholders.

Compensation and Incentives

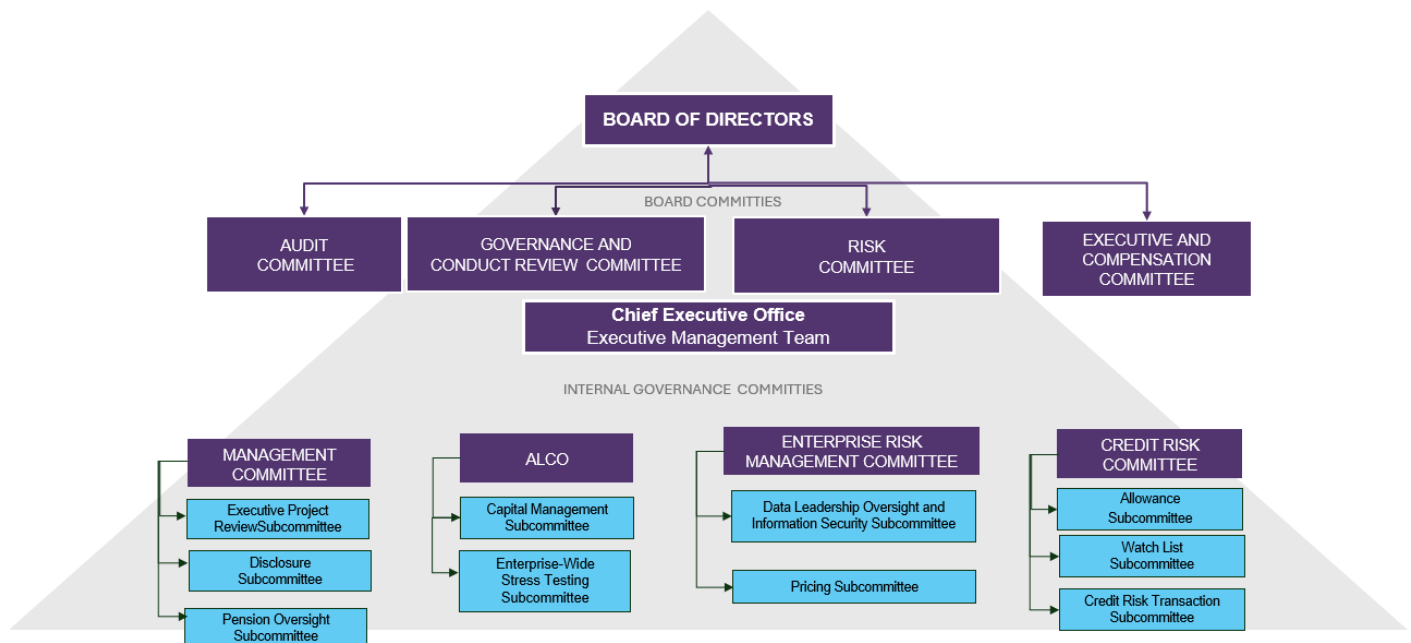
- Employees are rewarded in a manner that encourages behaviour that is consistent with the Bank's long-term strategic objectives, Risk Appetite, and adherence to compliance requirements.

Risk Governance Structure

The Bank's risk governance is based on a three lines of defence model:

- First Line of Defence – consists of the business units and corporate functions. As risk owners, management is accountable for identifying, assessing, measuring, managing, monitoring and reporting on the risks generated within their respective areas of responsibility.
- Second Line of Defence – consists of the Risk Management ("RM") and Corporate Compliance groups, who are responsible for the establishment of the Bank's risk management frameworks and the independent oversight and effective challenge of their implementation, and the independent identification, assessment, measurement monitoring and reporting of risk-taking activities.
- Third Line of Defence – Internal Audit is responsible for providing independent, objective assurance to the Board of Directors and Executive Management by assessing the effectiveness of governance, risk management and control processes. The chief audit executive is appointed by and reports directly to the Audit Committee.

The risk governance structure depicted below provides assurance that there is a framework in place for risk oversight and accountability across the organization. Risk owners are responsible for developing and executing strategies for controlling risk.



The Board is accountable for establishing the overall vision, mission, values, objectives and strategies of the Bank and setting the Bank's overall risk-bearing capacity and risk appetite. The Board challenges management's proposals and plans to ensure that the forecasted results and risk assessments are reasonable and in line with the Bank's capabilities, objectives and risk appetite. The RC is responsible for reviewing and overseeing the management of the Bank's enterprise risk profile and performance against its risk appetite. The RC is responsible for oversight of the identification, measurement, monitoring and control of the Bank's principal risks; key frameworks, policies, and risk limits established to control the Bank's exposures to its principal risks; the regulatory compliance management program; and the risk management function.

In addition to the above, the RC provides oversight of the independence and effectiveness of the Enterprise Risk Management ("ERM") function, the Bank's relationship with its regulators and the effectiveness of the Bank's internal controls, including the effectiveness and independence of the Bank's finance, internal audit and compliance functions.

The Executive Management Team ("EMT"), led by the Chief Executive Officer, is responsible for recommending corporate strategy to the Board and for overseeing its execution. A critical component of its mandate is the implementation of the risk appetite and risk management frameworks. The EMT is also accountable for implementation of a sustainable risk and compliance culture and monitoring the Bank's business activities, and providing risk oversight for strategic, reputational and compliance risks.

The most significant risks to the Bank are subject to more specific review, monitoring and assessment under the mandates of supporting risk management committees and sub committees. These committees recommend risk management policies for approval as proposed by RM and/or Corporate Compliance, proactively monitor and challenge management about specific risks under their mandates, and provide reporting to the RC on risk profile compared to the risk appetite and risk limits.

The RM group is mandated to work with management and the Board to support sustainable business performance through the independent identification, measurement, monitoring and reporting of all significant risks to the Bank, regardless of source. Working closely with management and the RC, the RM group recommends the Bank's overall risk appetite and limits, and develops and maintains an enterprise risk management framework and related risk governance structure to enable effective management of risk. It provides monitoring and oversight of the implementation of the risk appetite and risk management frameworks, including providing independent challenge and a current view of the Bank's risk profile by monitoring actual exposures against approved risk appetite, limits, policies and guidelines.

The Chief Compliance Officer (CCO), the Chief Anti-Money Laundering Officer (CAMLO) and the Corporate Compliance group are mandated to establish and maintain an enterprise-wide compliance framework (a set of controls and oversight processes) designed to mitigate the Bank's compliance risk. The Corporate Compliance group is an independent function that promotes a sound risk and compliance culture. The CCO and the CAMLO are responsible for expressing an independent opinion to the RC on the status, adequacy and effectiveness of the Bank's state of compliance on a periodic basis.

Internal Audit is mandated to independently assess and report to the Audit Committee and the Board on the effectiveness of governance, risk management and internal control processes.

The Finance group is mandated to establish and maintain a financial management framework (a set of controls and oversight processes). The Finance group has first line of defence responsibilities for implementing, monitoring and reporting on the effectiveness of controls. The Chief Financial Officer reports to management, the Board, and regulators on the performance of the Bank. The Finance group also updates the Bank's financial and capital plans with periodic forecasts, advises the Board of anticipated outcomes, and recommends revisions to capital plans and structures as appropriate.

Risk Appetite Statement

The Bank's RAS reflects the type of risk the Bank is willing to accept, to achieve its primary strategic objectives. The RAS is approved annually by the Board and is set at the aggregate group level. The Risk Appetite Framework describes the approach through which the Board and management develop, implement, and oversee the RAS in reinforcing a strong risk culture across the Bank. The RAS includes qualitative statements as well as quantitative measures and is appropriate for the Bank's size and complexity. The Bank's risk appetite combines point-in-time and forward-looking measures, and where applicable, utilize stress scenarios that are extreme but plausible.

The risk appetite framework includes key risk appetite measures supported by management and management risk committee-level limit structures that provide forewarning capabilities intended to trigger management actions and mitigation plans before risk appetite limits are breached.

Risk Policies and Limits

The Bank maintains policies, guidelines, delegated lending authorities, risk limits and an internal control framework designed to provide assurance that business activities are conducted within the Bank's risk appetite. Risk policies and guidelines are reviewed regularly and challenged by management risk committees, and key policies and frameworks are reviewed, challenged and approved by the Board and its committees.

The Bank has identified the following principal risks, as illustrated below.

Principal Risk	Key Policy / Framework	Risk Limits	Management Oversight
Credit	Credit Risk Management Framework Residential Mortgage Underwriting Policy	Credit Concentration Limits Delegated Lending Authorities	Credit Risk Committee
Market	Market Risk Policy	Market Risk Limits	Asset/Liability Committee
Liquidity and Funding	Liquidity and Funding Risk Policy	Liquidity and Funding Risk Limits Funding Concentration Limits	Asset/Liability Committee
Operational	Operational Risk Management Framework Information Technology Risk Management Policy Third-Party Risk Management Policy Information Security Risk Policy	Key Risk Indicators	Enterprise Risk Management Committee Executive Project Review Committee Data Leadership and Oversight Council
Compliance	Corporate Compliance Policy Anti-Money Laundering and Anti-Terrorist Financing Policy	Key Risk Indicators	Enterprise Risk Management Committee
Strategic	Strategic Planning Policy Climate Risk Management Framework	Risk Appetite Statement	Executive Committee
Reputational	Reputational Risk Policy	Risk Appetite Statement	Executive Committee
Capital Adequacy	Capital Management Policy	Key Risk Indicators	Capital Management Committee
Enterprise Risk	Enterprise Risk Management Framework Enterprise Risk Appetite Framework	Risk Appetite Statement	Enterprise Risk Management Committee

In addition to these principal risks, the Bank employs a risk register to describe risk categories and related subcategories to facilitate consistent risk identification and provide a common starting point in developing risk management strategies and processes. These risks are identified, measured, assessed and monitored on an ongoing basis, with regular reporting to risk committees of both senior management and the Board. Risks are mitigated through various actions designed to reduce the inherent risk to acceptable residual levels, as defined by the Bank's risk appetite. Strategic and reputational risks are considered overarching risks, as substantial outcomes from other principal risks could pose significant second-order impacts to the Bank's reputation or ability to execute strategic objectives.

Risk Identification and Assessment

The Bank uses a variety of risk identification and assessment mechanisms to identify and address external and internal sources of risk (e.g., changing economic, industry, regulatory and operating conditions) relative to the RAS. The Bank will identify and assess its principal risks regularly at the enterprise, business and product levels with consideration of the effectiveness of senior management's mitigation and action plans.

A continuous risk identification and assessment process is critical to ensuring that risks are identified, monitored, and controlled on an enterprise-wide basis. The Bank's risk identification process considers each of the risk categories outlined in the risk inventory and includes ongoing analysis of existing risks as well as the identification of new or emerging risks. Risk identification and assessment processes include: (i) strategic business planning; (ii) risk and control self-assessments; (iii) new initiative risk assessments; (iv) ICAAP; (v) stress testing; (vi) emerging risks; and (vii) internal and external risk events. Risks are identified, assessed and measured through proactive risk management. The enterprise-wide processes, methodologies, and systems have been established to measure, manage and report on the Bank's risk exposures, and include:

- No less than annually, Senior Management will undertake stress testing and scenario analysis for its strategic, financial, liquidity and funding, and capital plans, along with various underlying strategies and assumptions.
- Accountable Executives will ensure that all new strategic initiatives and material changes to the Bank's processes, technology, products, or services are subject to the Business Enablement and Risk Assessment Tool prior to their launch or implementation.

The Bank uses a range of risk tool programs to proactively identify its exposure to key risks and assesses the effectiveness of related mitigation strategies. Risk assessments are also performed on regulatory compliance management and significant new initiatives by business and support groups (e.g., products, services or technologies), and other internal subject matter experts.

Risk Measurement

Measurement of risk is a key component of the Bank's ERMF and includes consideration of both quantitative (e.g., credit, liquidity, and capital risks) and qualitative (e.g., reputational, legal and regulatory, and operational risks) elements. Risk measurement activities include but are not limited to: (i) credit exposures and provisioning, (ii) liquidity measures, (iii) operational risk events, (iv) stress testing, (v) ICAAP, (vi) key risk indicators (vii) risk appetite, and (viii) risk and control self-assessments.

The ability to measure risks is a key component of the Bank's risk management framework and capital management processes. The Bank's risk measurement processes align with regulatory requirements such as liquidity measures, leverage ratios, capital adequacy and stress testing. While quantitative risk measurement is important, reliance is also placed on qualitative factors for those risk types that are difficult to quantify. The Bank uses various risk measurement methodologies, including scenario and sensitivity analysis, stress testing, risk limits, and internal and external operational risk event monitoring.

Stress Testing

Management conducts regular stress testing, including stress testing through the Bank's ICAAP, liquidity and funding planning, credit risk management and ad hoc stress testing to evaluate a range of extreme but plausible scenarios. Stress tests are conducted to determine the potential impact of these events, the effectiveness of management's contingency plans to deal with these unlikely but possible events, and management's ability to mitigate the potential risk. A common set of enterprise scenarios is developed to assess the impact on the Bank's financial results, capital position, operational capabilities and the Bank's ability to respond to the event. In particular, management has evaluated a range of stress scenarios, including a severe real estate price decline and an interest rate shock. Management analyzes the outcomes from stress testing and, where applicable, takes proactive measures to mitigate potential risks to the business.

Risk Monitoring and Reporting

The Bank's governance framework mandates regular reporting mechanisms from the Risk Management function to the Board and management committees to support the effective execution of Board and senior management oversight responsibilities. Reporting must be transparent and timely, with the ability to be aggregated at the Bank level and disaggregated at the legal entity level. In this context, a comprehensive summary of the Bank's risk profile and performance against its RAS is presented quarterly to the Board.

Enterprise and business level risk monitoring and reporting processes are designed to ensure that risks and issues are identified, escalated and managed on a timely basis. The Bank monitors external developments, key risk indicators and early warning

indicators to identify and provide timely responses to emerging risk issues and other changes in risk profile before risk appetite limits are reached. ERM, management risk committees and the Board regularly monitor the Bank's risk profile in relation to risk appetite and related limits, with timely escalation of issues requiring broader attention and/or approval.

In addition to the above, risk-specific presentations are provided to and discussed with management risk committees and the Board periodically. The Bank has also implemented an integrated risk reporting process with joint collaboration between ERM, Corporate Compliance and Internal Audit.

Credit Risk

Credit risk is the risk that a borrower will default on any type of debt by failing to make payments which it is obligated to make. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. The loss may be complete or partial and can arise in a number of circumstances. The Bank's overall exposure to credit risk is governed by a defined credit-specific risk appetite, risk limits, a Board-approved Credit Risk Management Framework, delegated lending authorities, and regular independent monitoring and reporting. The Credit Risk Committee ("CRC") establishes, implements and monitors credit risk-related policies and guidelines enterprise-wide, considering business objectives, risk appetite, planned financial performance and risk profile. Credit risk limits are established for all types of credit exposures, with geographic, product, property and security type limits established to cover all material classes of exposure. The Bank's Credit Risk Framework limits the total aggregate exposure to any entity or connection. The lines of business are responsible for managing the Bank's credit risks in accordance with approved policies and guidelines, and assessing overall credit conditions and exposures on an ongoing basis. The CRC, CMC, the RM group and the RC of the Board provide oversight of the credit portfolio through ongoing reviews of credit risk management policies, lending practices, portfolio composition and risk profile, the adequacy of allowance for credit losses and the allocation of credit risk-based capital

Non-Performing Loans

The Bank applies IFRS 9 Financial Instruments ("IFRS 9") in its determination of what the Bank considers as non-performing loans and how provisions and allowances for credit losses are calculated. The determination of allowances for credit losses under IFRS 9 involves a three-stage expected credit loss model. Stage 1 represents loans that are considered to be performing well with no significant deterioration in the risk of default. Stage 2 represents loans that are still considered to be performing but where there has been a significant increase in the risk of default. Stage 3 represents impaired (non-performing) loans where payments are generally 90 days or more past due or where there is other objective evidence of impairment.

Credit Provisions and Allowances

The Bank maintains an allowance for credit losses in accordance with IFRS 9, which represents management's best estimate of expected credit losses in the loan portfolio. The allowance is reviewed quarterly, at a minimum. In addition to the allowance for credit losses, the risk of future losses is considered in the determination of the appropriate level of capital supporting the Bank's operations. The Bank holds capital for possible further credit losses. This includes capital required by regulation and additional capital amounts as recommended by management and approved by the Board. The Bank uses stress testing and scenario analysis to challenge the adequacy of capital appropriated for credit risk.

Table 1: Credit Risk Exposure by Internal Risk Rating

The following table provides the gross carrying amount of all financial loans in accordance with IFRS 9, based on the Bank's credit risk exposure rating scale as at March 31st, 2025, and December 31st, 2024.

					As at			
thousands of Canadian dollars (unaudited)	March 31, 2025				December 31, 2024			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Total loans								
Gross carrying amount	24,253,064	3,636,712	818,851	28,708,627	5,403,556	1,508,423	236,819	7,148,798
Allowance for credit losses	(234,524)	(191,979)	(181,377)	(607,880)	(218,149)	(173,785)	(121,149)	(513,083)
Net carrying amount	\$ 24,018,540	\$ 3,444,733	\$ 637,474	\$ 28,100,747	\$ 5,185,407	\$ 1,334,638	\$ 115,670	\$ 6,635,715

The following table details the Bank's Provision for Credit Losses and Net Write Offs for the 3 months ended March 31st, 2025 and December 31st, 2024.

Table 2: Provision for Credit Losses and Net Write-Offs as a Percentage of Gross Loans

(000s, except %)	March 31, 2025		December 31, 2024	
	Amount	% of Gross Loans	Amount	% of Gross Loans
Provision (Reversal) of Credit Losses				
Total provision for credit losses	\$ 140,090	1.99%	148,297	8.40%
Net Write-Offs (Recoveries)				
Net write-offs	\$ 144,614	2.06%	135,846	7.70%

The following table details the Bank's Allowances and Non-Performing Loans for the 3 months ended March 31st, 2025, and December 31st, 2024.

Table 3: Allowances and Non-Performing Loans

(000s, except %)	March 31, 2025		December 31, 2024	
	Amount	% of Gross Loans	Amount	% of Gross Loans
Allowance for Credit Losses				
Total allowance for credit losses ¹	\$ 635,007	2.21%	\$ 540,062	7.55%
Net Non-Performing Loans				
Total net non-performing loans	\$ 637,474	2.22%	\$ 115,669	1.62%

¹ Includes On-Balance Sheet and Off-Balance Sheet Allowances

Geographic Concentration of Loans

The Bank operates across Canada and as part of the risk appetite measures, they actively monitor loans by Geographic location to ensure its resilience to any specific provincial events or developments. The geographic distribution of total loans is detailed in the below tables as of March 31st, 2025, and December 31st, 2024.

Table 4: Geographical Concentration of Loans

(000s, except %)							As at March 31, 2025
	British Columbia	Alberta	Ontario	Quebec	Atlantic Provinces	Other	Total
Total Loans	\$ 2,944,832	\$ 2,267,094	\$ 17,669,687	\$ 2,782,069	2,126,835	\$ 918,110	\$ 28,708,627
As a % of portfolio	10.3%	7.9%	61.5%	9.7%	7.4%	3.2%	100.0%

(000s, except %)							As at December 31, 2024
	British Columbia	Alberta	Ontario	Quebec	Atlantic Provinces	Other	Total
Total Loans	\$ 707,083	\$ 959,005	\$ 2,719,570	\$ 1,359,123	\$ 863,710	\$ 540,307	\$ 7,148,798
As a % of portfolio	9.9%	13.4%	38.0%	19.0%	12.1%	7.6%	100.0%

Market Risk

Market risk is the potential for financial loss resulting from adverse changes in underlying market factors, including interest and foreign exchange rates, credit spreads and equity and commodity prices. For the Bank, market risk consists primarily of investment risk and structural interest rate risk. A summary of these risks is as follows:

Investment Risk

Investment risk is the risk of loss of earnings and capital from changes in security prices and dividends in the investment portfolio, whether they arise from macroeconomic factors, the economic prospects of the issuer, or the availability of liquid markets, among other factors. The Bank's investment portfolio consists of government bonds. The total balance was \$349.5 million at March 31, 2025 compared to \$nil at December 31, 2024.

The Bank's investment risk management framework is approved by the ALCO and the RC. The ALCO is responsible for defining and monitoring the Bank's investment portfolio and identifying investments that may be at risk of impairment. The ERM group conducts analysis of counterparties to assess if credit deterioration has resulted in an impairment of the investments. The Treasury group is responsible for managing the Bank's investment portfolio in accordance with approved policies and for assessing the impact of market events on potential implications for its total value. The ERM group recommends policies, reviews procedures and guidelines, and provides enterprise-wide oversight and challenge of investment risk, including valuations.

Structural Interest Rate Risk

Structural interest rate risk is the risk of lost earnings or capital due to changes in interest rates. The objective of interest rate risk management is to ensure that the Bank can realize stable and predictable earnings over specific time periods despite interest rate fluctuations. The Bank has adopted an approach to the management of its asset and liability positions to prevent interest rate fluctuations from materially impacting future earnings and seeks to organically match liabilities to assets in terms of maturity and interest rate repricing through its actions in the deposit market in priority to accessing off-balance sheet solutions.

The Bank's market risk management framework includes interest rate risk policies that are approved by the ALCO and the RC. The ALCO is responsible for defining and monitoring the Bank's structural interest rate risk and reviewing significant maturity and/or duration mismatches, as well as developing strategies that allow the Bank to operate within its overall risk appetite. In addition, the ALCO oversees stress testing of structural interest rate risk using a number of interest rate scenarios. The Treasury group is responsible for managing the Bank's interest rate gaps in accordance with approved policies and assesses the impact of market events on the Bank's net interest income and economic value of shareholder's equity. The ERM group recommends prudent policies and guidelines and provides independent enterprise-wide oversight of all interest rate risk.

From time to time the Bank enters into derivative transactions to hedge interest rate exposure resulting from duration mismatch between its fixed-rate mortgages and deposits. Where appropriate, the Bank will apply hedge accounting to minimize volatility in reported earnings from interest rate changes. All derivative contracts are over-the-counter contracts with highly rated Canadian financial institutions. The use of derivative products has been approved by the Board; however, permitted usage is governed by specific policies. Derivatives are only permitted for hedging purposes; the use of derivatives is not permitted for transactions that are undertaken to potentially create trading profits through speculation on interest rate movements.

The Bank uses two main metrics to quantify its interest rate risk exposure. These metrics measure the impact on the Bank's future net interest income and the economic value of shareholder's equity for a given change in interest rates. The metrics are calculated using a number of different yield curve scenarios including parallel up/down movements, curve flattening and curve steepening. In calculating its interest rate risk exposure, behavioural assumptions are used to model elements such as loan prepayments, commitment funding ratios and cashable deposit redemptions. These assumptions are back tested and reviewed regularly.

The following table provides measurements of interest rate sensitivity and the potential after-tax impact of an immediate and sustained 100 basis-point increase or decrease in interest rates on net interest income and on the economic value of shareholder's equity.

Table 5 – Impact of Interest Rate Risk

	As at			
(thousands of Canadian dollars)	March 31 2025	December 31 2024	March 31 2025	December 31 2024
	Increase in interest rates		Decrease in interest rates	
100 basis point shift				
Impact on net interest income, after tax (for the next 12 months)	\$ 1,376	\$ (781)	\$ (1,420)	\$ 704
Impact on net present value of shareholder's equity	(8,838)	(9,840)	9,244	10,523

Liquidity and Funding Risk

Liquidity and funding risk is the risk that the Bank is unable to generate or obtain sufficient cash or equivalents in a timely manner and at a reasonable cost to meet its financial obligations (both on- and off-balance sheet) as they become due. This risk will arise from fluctuations in the Bank's cash flows associated with lending, securitization, deposit-taking, investing and other business activities. The Bank's liquidity and funding risk management practices are consistent with OSFI's Liquidity Adequacy Requirement ("LAR") guideline.

The High-Interest Savings Accounts and Oaken Savings Accounts add to liquidity risk as depositors can withdraw deposits without notice in the absence of fixed contractual terms. The Bank strategically limits demand deposits to an appropriate level that is aligned with the Bank's liquidity and funding limits, taking into consideration that a primary purpose of the Oaken Savings Accounts is to facilitate the seamless movement of funds to and from Oaken GICs for customers.

The Bank's liquidity risk management framework includes a three-year enterprise funding plan, liquidity and funding risk policies, and a contingency funding plan that are approved by the ALCO and the RC. The mandate of the ALCO includes establishing and recommending to the Board an enterprise-wide liquidity risk appetite. In addition, the ALCO reviews the composition and term structure of assets and liabilities, reviews liquidity and funding risk policies and strategies and regularly monitors compliance with those policies. The ALCO also oversees the stress testing of liquidity and funding risk and the testing of the Bank's contingency funding plan. The Treasury group is responsible for managing the Bank's liquidity and funding risk positions in accordance with approved policies and assesses the impact of market events on liquidity requirements on an ongoing basis. The ERM group recommends liquidity policies and guidelines, and provides independent oversight of all liquidity and funding risk.

The Bank's annual three-year funding plan assesses future funding needs and how the Bank intends to fulfill these requirements as measured against the Bank's risk appetite. Securing sustainable diversified funding at a reasonable cost and acceptable level of liquidity risk is fundamental to the Bank realizing its future growth potential.

The Bank's liquidity and funding risk policies address several key elements, such as the minimum levels of liquid assets to be held at all times; the composition of types of liquid assets to be maintained; daily monitoring of the liquidity position by Treasury, senior management, and the ERM group; monthly reporting to the ALCO; and quarterly reporting to the RC.

The Bank uses a liquidity horizon as its main liquidity metric. Using maturity gap analysis, the Bank projects a time horizon when its net cumulative cash flow turns negative, after taking into account the market value of its stock of liquid assets. The Bank's liquidity horizon is calculated daily and is based upon contractual and behavioural cash flows. Forecasts are made using normal market conditions and a number of stressed liquidity scenarios, including ability to fund, term deposit runoff, demand deposit runoff, loan growth, liquidity portfolio valuation, loan arrears and write-downs.

The Bank considers its exposure to liquidity risk at March 31, 2025 to be at an acceptable risk level. The Bank believes the current level of liquidity and credit facilities are sufficient to support ongoing business for the foreseeable future. The Bank's liquidity and funding risk policies are designed to ensure that cash balances and the inventory of other liquid assets are sufficient to meet all cash outflows both in ordinary market conditions and during periods of extreme market stress. The Bank holds liquid assets in the form of cash, bank deposits, securities issued or guaranteed by the Government of Canada, securities issued by provincial governments, and highly rated short-term money market securities, corporate bonds and debentures.

The Bank's liquid assets are presented in the table below as of March 31st, 2025, and December 31st, 2024:

Table 6 - Liquidity Resources

<i>(000s, except %)</i>	March 31 2025	December 31 2024
Cash and cash equivalents	\$ 740,926	\$ 292,643
Debt securities	349,547	-
MBS included in residential mortgages	256,186	-
Total of liquid assets at carrying value	1,346,659	292,643
Total of liquid assets at fair value	\$ 1,346,659	\$ 292,643
Available financing capacity	\$ 1,152,594	\$ 434,871
Contingent committed capacity	159,106	85,629
Total liquidity	\$ 2,658,359	\$ 813,143

Liquid assets are unencumbered high-quality assets for which there is a broad and active secondary market available to the Bank to sell these assets without incurring a substantial discount.

Certain Bank-originated NHA MBS are held as liquid assets but are classified in residential mortgages on the balance sheet, as required by IFRS. The underlying mortgages are insured and the securities are stamped by CMHC. On an overall basis, liquidity resources fluctuate as the Bank's future cash requirements change.

The Bank's main sources of funding come from retail deposits and securitization. Retail deposits are primarily sourced through the deposit broker network and the Bank relies heavily on this channel. The majority of these deposits are received through channels that are controlled by several of the major Canadian banks. The broker network provides the Bank with access to a very large volume of potential deposits, which are sourced almost entirely from individual investors. The majority of deposits raised are CDIC-insured fixed-term GICs that are not subject to early redemption. The Bank has contractual agreements with most major national investment dealers and a large number of independent brokers.

The Bank continues its longer-term strategy to diversify its sources of funding through its direct-to-consumer brand, Oaken Financial. The Bank has further diversified its funding base through various capital market initiatives, including its RMBS program, participation in bank-sponsored securitization conduits, and its institutional deposit note program.

OSFI Liquidity Requirements

As required by OSFI's LAR guideline, the Bank reports its Liquidity Coverage Ratio ("LCR") and Net Cumulative Cash Flow ("NCCF") to OSFI. The LCR measures an institution's ability to withstand a significant 30-day stress scenario, while the NCCF measures liquidity risk over and up to a 12-month time horizon. The Bank complies with OSFI's LAR requirements, including the specific capital and liquidity requirements applicable to SMSBs. The Bank's reported liquidity metrics remain well in excess of regulatory requirements.

Operational Risk

Operational risk, which is inherent in all business activities, is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk. The impact of operational risk may include financial loss, reputational harm, or regulatory enforcement actions, among other impacts. Operational risk is inherent in every business and support activity, including the practices for managing other risks such as credit, compliance and liquidity and funding risks. The Bank has taken proactive steps to mitigate this risk in order to create and sustain shareholder value, execute on business strategies and operate effectively. Strategies to manage operational risk include mitigation through controls as well as risk avoidance, transfer and acceptance. Oversight of the operational risk framework is provided by the RM group, the Enterprise Risk Management Committee, and the RC of the Board.

The Bank's Operational Risk Management (the "ORM") program seeks to ensure that operational risks are understood, identified, and managed; that necessary mitigating policies and controls are implemented to meet regulatory requirements; to maintain and reinforce confidence in the safety and stability of the Bank; and to minimize operating losses.

The ORM program is based on the following principles:

- The Bank will maintain strong internal governance supported by appropriate policies that inform management's attitude and behavior to risk awareness and risk taking.
- The Bank will aim to manage and control operational risk and will not be strictly limited to risk avoidance or elimination. ORM practices will be utilized to facilitate the making of informed decisions, allowing the Bank to optimize its objectives and to provide for the continued strength of the Bank.
- The Bank will maintain sound operational risk governance where independent oversight is balanced with clear ownership for operational risk within the business, and supported by a clear understanding of the Bank's risk profile and appetite for risk.
- The Bank will implement processes and procedures to support management in providing reasonable assurance that material operational risks are identified, measured, monitored, mitigated, reported, and supported by adequate capital.
- The Bank will implement effective disaster recovery, business continuity and third-party risk practices that enhance the operational resiliency of the Bank to ensure it can continue operating in the event of a severe business disruption.
- The Bank will ensure appropriate training is developed and implemented.

The Bank's ORM program will provide timely, accurate and reliable risk reporting to the Board and senior management

Compliance Risk

Compliance risk refers to the risk of non-compliance with laws, regulations, guidelines, an undertaking to a regulatory authority or provision, section, subsection, order, term or condition, including related internal policies and procedures. This includes requirements that have been identified by the Executive Management Team that require the Bank to do certain things, including conducting its affairs in a particular manner, and where non-compliance could have an impact on the Bank's reputation and/or safety and soundness.

While all business units and corporate functions of the Bank (as the first line of defence) are responsible for ensuring that compliance risk (including but not limited to anti-money laundering, anti-fraud, ethics and conduct, privacy and sanctions) is mitigated, the independent oversight of compliance risk is principally managed by the CCO, CAMLO and the Corporate Compliance group as part of the Bank's Regulatory Compliance Framework.

Regulated entities like the Bank, Home Trust and Home Bank are prohibited from disclosing, directly or indirectly, any Prescribed Supervisory Information ("PSI") relating to it or its affiliates, with certain limited exceptions. PSI is defined broadly in terms of (i) assessments, recommendations, ratings and reports concerning the Bank that are made by or at the request of OSFI; (ii) any category in which the Bank is classified under the CDIC Differential Premiums By-laws, any premium rate assigned to it and any annual premium determined for it under that By-law; and (iii) certain regulatory actions taken with respect to the Bank.

Capital Adequacy Risk

Capital adequacy is a key requirement in the safety and soundness of any financial institution. Capital is the difference between the Bank's assets and liabilities, and acts as a financial cushion to absorb unexpected losses. Capital adequacy risk is the risk of not maintaining sufficient capital to both meet the Bank's business objectives as well as regulatory and ICAAP requirements, even in periods of severe, but plausible stress. Not maintaining sufficient capital adequacy may lead to insolvency and creditor (depositor) losses. Refer to the Capital Management section of this document for further information.

Oversight of the management of capital adequacy risk is provided by the ERM group, Finance, the CMC and the RC of the Board.

Strategic Risk

Strategic risk is the risk arising from ineffective business strategies, external business environment or the failure to effectively execute strategies and specific business activities and the potential effects on earnings. It includes but is not limited to, potential financial loss due to the failure of acquisitions or organic growth initiatives, and the failure of management to adjust its strategies and business activities for external events or business results, or the inability of the business to change its cost levels in response to those changes. Strategic risk is managed by the EMT. On a regular basis, the EMT reviews the current business environment, including environmental and social risks, regulatory developments and the actions of the Bank's competitors, and adjusts business plans accordingly.

Reputational Risk

Reputational risk is the risk arising from negative publicity regarding the Bank's business conduct or practices which, whether true or not, may cause a decline in the customer base or lead to unanticipated expenses, costly litigation or revenue reductions, or loss of funding from a securitization facility or reduced access to the deposit market. The Bank can be subject to reputational risk arising from the activities of its subsidiaries or the business brands that it services.

The objective of reputational risk management is to protect and enhance the Bank's reputation by building and maintaining stakeholder confidence and trust that the Bank can deliver on its promises. The Bank has adopted a reputational risk management framework that provides an overview of its approach for this type of risk, focusing on risk management principles, stakeholder management, and organizational accountabilities for the prevention and detection of reputational risk vulnerabilities. The Bank's approach to the management of this risk combines the experience and knowledge applied in the management of other risk types with a corporate understanding of potential consequences to the Bank. Oversight is provided by the EMT and the RC of the Board.