



BASEL III PILLAR 3 DISCLOSURES

September 30, 2023

Overview

HomeEquity Bank (the Bank) is a federally regulated Schedule I bank, incorporated and domiciled in Canada. The Bank's main business is to originate and administer reverse mortgages. The Bank also issues guaranteed investment certificates and through its principal subsidiary, medium-term debt to fund its mortgage portfolio. The Bank is a wholly owned subsidiary of HOMEQ Corporation (HOMEQ). On November 30, 2012, under an arrangement agreement, Birch Hill Equity Partners Management Inc. acquired all the outstanding common shares of HOMEQ and became the ultimate parent of the group. On September 30, 2022, Ontario Teachers' Pension Plan Board (OTPP) indirectly acquired all of the outstanding shares of HOMEQ and became the ultimate parent of the group.

Basis of preparation

This document represents the Basel III Pillar 3 disclosures for the Bank. These disclosures are made pursuant to the Office of the Superintendent of Financial Institutions (OSFI) requirements, which are based on global standards established by the Bank of International Settlements, Basel Committee on Banking Supervision (BCBS). The Bank follows the Pillar 3 Disclosure requirements for Small and Medium-Sized Banks (SMSBs) and is classified as a Category 2 SMSB.

The amounts disclosed in this document are based on the Bank's annual audited financial statements and the unaudited condensed consolidated interim financial statements, which reflect the financial position and results of operations of the Bank consolidated with the financial position and results of operations of its subsidiaries. These interim consolidated financial statements are prepared in accordance with International Accounting Standard (IAS) 34, including the accounting requirements specified by OSFI, and reflect, where necessary, management's best estimates and judgments. This report is unaudited.

Table 1: Key metrics (at consolidated group level)

		a	b
		September 30 2023	June 30 2023
Available capital (amounts)			
1	Common Equity Tier 1 (CET1)	474,108	466,329
2	Tier 1	474,108	466,329
3	Total capital	507,799	489,971
Risk-weighted assets (amounts)			
4	Total risk-weighted assets (RWA)	2,942,251	2,817,325
Risk-based capital ratios as a percentage of RWA			
5	CET1 ratio (%)	16.1%	16.6%
6	Tier 1 ratio (%)	16.1%	16.6%
7	Total capital ratio (%)	17.3%	17.4%
Additional CET1 buffer requirements as a percentage of RWA			
8	Capital conservation buffer requirement (2.5% from 2019) (%)		
9	Countercyclical buffer requirement (%)		
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)		
12	CET1 available after meeting the bank's minimum capital requirements (%)		
Basel III Leverage ratio			
13	Total Basel III leverage ratio exposure measure	7,450,275	7,129,294
14	Basel III leverage ratio (row 2 / row 13)	6.36%	6.54%

Table 2: Modified CC1 – Composition of capital for SMSBs

<i>(in thousands of Canadian dollars)</i>		September 30 2023
		Amounts
Common Equity Tier 1 capital: instruments		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	180,392
2	Retained earnings	295,771
3	Accumulated other comprehensive income (and other reserves)	
4	<i>Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)</i>	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	
6	Common Equity Tier 1 capital before regulatory adjustments	476,163
Common Equity Tier 1 capital: regulatory adjustments		
28	Total regulatory adjustments to Common Equity Tier 1	(2,055)
29	Common Equity Tier 1 capital (CET1)	474,108
Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	
31	of which: classified as equity under applicable accounting standards	
32	of which: classified as liabilities under applicable accounting standards	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	
35	<i>of which: instruments issued by subsidiaries subject to phase out</i>	
36	Additional Tier 1 capital before regulatory adjustments	—
Additional Tier 1 capital: regulatory adjustments		
43	Total regulatory adjustments to Additional Tier 1 capital	
44	Additional Tier 1 capital (AT1)	
45	Tier 1 capital (T1 = CET1 + AT1)	474,108
Tier 2 capital: instruments and allowances		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	
47	Directly issued capital instruments subject to phase out from Tier 2	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	
49	<i>of which: instruments issued by subsidiaries subject to phase out</i>	
50	Eligible Stage 1 and Stage 2 allowance	33,691
51	Tier 2 capital before regulatory adjustments	33,691

Table 2: Modified CC1 – Composition of capital for SMSBs (continued)

<i>(in thousands of Canadian dollars)</i>		September 30 2023
		Amounts
Tier 2 capital: regulatory adjustments		
57	Total regulatory adjustments to Tier 2 capital	
58	Tier 2 capital (T2)	33,691
59	Total capital (TC = T1 + T2)	507,799
60	Total risk weighted assets	2,942,251
Capital ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	16.1%
62	Tier 1 (as a percentage of risk weighted assets)	16.1%
63	Total capital (as a percentage of risk weighted assets)	17.3%
OSFI target		
69	Common Equity Tier 1 capital target ratio	7.0%
70	Tier 1 capital target ratio	8.5%
71	Total capital target ratio	10.5%

Table 3: Leverage Ratio

Item (in thousands of Canadian dollars)		September 30 2023	June 30 2023
		Amounts	Amounts
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	7,337,677	7,017,953
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework (IFRS)		
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)		
4	(Asset amounts deducted in determining Tier 1 capital)	(2,055)	(2,010)
5	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	7,335,622	7,015,943
6	Replacement cost associated with all derivative transactions		
7	Add-on amounts for PFE associated with all derivative transactions	610	704
8	(Exempted CCP-leg of client cleared trade exposures)		
9	Adjusted effective notional amount of written credit derivatives		
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
11	Total derivative exposures (sum of lines 6 to 10)	610	704
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions		
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	Counterparty credit risk (CCR) exposure for SFT assets		
15	Agent transaction exposures		
16	Total securities financing transaction exposures (sum of lines 12 to 15)	—	—
17	Off-balance sheet exposure at gross notional amount	285,108	281,617
18	(Adjustments for conversion to credit equivalent amounts)	(171,065)	(168,970)
19	Off-balance sheet items (sum of lines 17 and 18)	114,043	112,647
20	Tier 1 Capital	474,108	466,329
21	Total Exposures (sum of lines 5, 11, 16 and 19)	7,450,275	7,129,294
22	Basel III leverage ratio	6.36%	6.54%