BASEL III PILLAR 3 DISCLOSURES

September 30, 2023

Banque Haventree Bank

1. NATURE OF OPERATIONS

Haventree Bank (the "Bank"), a Schedule 1 Bank, is a federally regulated financial institution and a wholly owned subsidiary of Haventree Holdings Inc ("HHI"). The Bank serves the Canadian mortgage market by offering residential mortgage loans to customers who are seeking an alternative mortgage solution because they do not meet the conventional underwriting standards of the major Canadian banks. The Bank is domiciled in Canada, with its registered office located at 100 King Street West, Suite 4610, Toronto, Ontario.

2. CAPITAL MANAGEMENT

The Bank's Capital Management Policy governs the quantity and quality of its capital, ensuring it meets minimum regulatory capital requirements, is consistent with the Bank's risk appetite framework, and supports the Bank's strategic objectives. Management's internal capital adequacy assessment process is integral to the Bank's capital planning activities and incorporates a stress testing program that evaluates the impact of potential scenarios on income and capital. Regulatory capital requirements addressed by the policy include the leverage ratio and risk-based capital ratios (Common Equity Tier 1 ("CET 1"), Tier 1 and Total Capital).

Regulatory capital and capital ratio calculations are based on the Capital Adequacy Requirements ("CAR") Guidelines issued by the Office of the Superintendent of Financial Institutions ("OSFI"). The guidelines are based on Basel III: A global regulatory framework for more resilient banks and banking systems – A Revised Framework ("Basel III").

The leverage ratio is defined as Tier 1 capital divided by the total exposure measure. The exposure measure is the sum of: (a) on-balance sheet exposures; (b) derivative exposures; (c) securities financing transaction exposures; and (d) off-balance sheet items. Federally regulated deposit-taking institutions are expected to have Basel III leverage ratios that meet or exceed 3%. In addition, OSFI has established leverage ratio targets on a confidential and institution by institution basis. The Bank is considered a Category II Deposit Taking Institution for the purpose of capital and liquidity requirements.

In January 2022, OSFI finalized its public consultation on the implementation of the final Basel III reforms into its capital, leverage and related disclosure guidelines. OSFI's proposals are inline with the Basel Committee on Banking Supervision standards, with considerations given to the Canadian market. The changes include:

- Revision to both the Internal Rating-based Approach (IRB) and Standardized Approach to credit risk;
- Revised operational, market risk and CVA frameworks;
- Updated CET1 capital deductions for certain assets;
- An updated capital output floor based on the revised Standardized Approach noted above, with the phase-in of the floor factor over three years beginning in 2023; and
- Modification to the Leverage Ratio framework

The changes came into effect during Q2 2023, with the exception of revisions to the CVA and market risk frameworks, which are targeted for the first quarter of 2024. The measures did not have a significant impact on the Bank's regulatory capital and capital ratios calculations.

OSFI introduced capital flexibility measures to support COVID-19 efforts while promoting financial resilience and stability to institutions. The Bank has applied the transitional arrangements for regulatory capital treatment of expected credit loss ("ECL") accounting by applying a scaling factor on the increase in Stage 1 and Stage 2 allowances relative to the amount of Stage 1 and Stage 2 allowances. This increased amount is adjusted for tax effects and subject to a scaling factor that decreases over time. The scaling factor was 25% for 2022 and has been fully phased out for 2023.

Table 2: Composition of Capital

Line No.	($000s, except percentage amounts)	**September 30, 2023**	December 31, 2022
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surpluses	**$ 71,093**	$ 69,642
2	Retained earnings	**158,587**	149,029
3	Accumulated other comprehensive loss	**(4,548)**	(4,432)
6	Common Equity Tier 1 capital before regulatory adjustments	**225,132**	214,239
	Common Equity Tier 1 capital: regulatory adjustments		
28	Total regulatory adjustments to Common Equity Tier 1	**(1,288)**	(1,139)
29	**Common Equity Tier 1 capital (CET1)**	**223,844**	213,100
29a	Common Equity Tier 1 capital with transitional arrangements for ECL provisioning not applied	**N/A**	212,626
45	Tier 1 capital	**223,844**	213,100
45a	Tier 1 capital with transitional arrangements for ECL provisioning not applied	**N/A**	212,626
59	Total capital	**223,844**	213,100
59a	Total capital with transitional arrangements for ECL provisioning not applied	**N/A**	212,626
60	Total risk-weighted assets	**1,228,225**	1,172,678
60a	Credit valuation adjustment risk-weighted assets	**324**	64
	Capital ratios		
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	**18.2%**	18.2%
62	Tier 1 (as percentage of risk-weighted assets)	**18.2%**	18.2%
63	Total capital (as percentage of risk-weighted assets)	**18.2%**	18.2%
	OSFI target		
69	Common Equity Tier 1 capital all-in target ratio	**7.0%**	7.0%
70	Tier 1 capital all-in target ratio	**8.5%**	8.5%
71	Total capital all-in target ratio	**10.5%**	10.5%

Table 3: Leverage Ratio

Line No.	($000s, except percentage amounts)	September 30, 2023	December 31, 2022
	On-balance sheet exposures		
1	On-balance sheet items	**$ 3,245,339**	$ 3,005,695
4	(Asset amounts deducted in determining Tier 1 capital)	**(1,288)**	(1,612)
5	**Total on-balance sheet exposure**	**3,244,051**	3,004,083
	Derivative exposures		
6	Replacement cost associated with all derivative transactions	**—**	—
7	Add-on amounts for potential future exposure associated with all derivative transactions	**3,816**	558
11	**Total derivatives exposure**	**3,816**	558
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	**229,907**	208,794
18	(Adjustment for conversion to credit equivalent amounts)	**(206,916)**	(187,915)
19	**Off-balance sheet items**	**22,991**	20,879
	Capital and total exposures		
20	Tier 1 capital	**223,844**	213,100
21	Total exposures	**3,270,858**	3,025,520
	Leverage ratio		
22	Basel III leverage ratio	**6.84%**	7.04%
22a	Basel III leverage ratio with transitional arrangements for ECL provisioning not applied	**N/A**	7.03%

3. CREDIT RISK MANAGEMENT

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations. The nature of the Bank's mortgage lending operations creates an exposure to credit risk resulting from possible defaults in payment by borrowers. The Bank oversees the management of credit risk through its Enterprise Risk Management Committee ("ERMC"), which is comprised of members of senior management. The ERMC meets regularly to review risk factors in the mortgage portfolio and periodically considers and recommends adjustments to the credit risk limits in the Board approved credit lending policy.

The credit risk management and control functions are outlined in the underwriting, risk and compliance policies and procedures. As part of the underwriting process, the Bank relies heavily upon information supplied by both borrowers and third parties. If any of this information is intentionally or negligently misrepresented and the misrepresentation is not detected before completing the transaction, the credit risk associated with the transaction may be increased. If house prices increase at a faster rate than incomes, fewer borrowers will be able to qualify for mortgage financing at their desired level. In addition, some borrowers may be tempted to overstate their incomes to meet lender credit and debt service requirements. While policies and procedures are in place, there can be no absolute assurances to prevent credit risk from having an adverse effect on the Bank's profitability and financial condition.

The mortgage portfolio consists of uninsured residential mortgages. As a result, the Bank's primary credit risk relates to the potential for financial loss resulting from the failure of a borrower to fully honour their financial or contractual obligations, such as the failure to repay principal and/or interest on the mortgage. The portfolio consists of residential mortgages originated under lending programs designed to serve customers who are seeking an alternative solution because they have limited access to traditional financing. There is a higher risk of default associated with these customers than with traditional borrowers. The typical customer includes borrowers with a thin or challenged credit history or who are self employed. Because the Bank serves customers who are unable to meet the conventional underwriting standards of the major Canadian banks, interest is charged at higher rates than those lenders. The factors used in determining borrowers' creditworthiness may be subject to change over time. An increase in loan losses beyond those expected and provided for could have a material adverse effect on the Bank's operating results and financial condition. The Bank mitigates this risk primarily by conducting diligence on each borrower and by dealing with known and reputable mortgage brokers. In addition, as an uninsured residential mortgage lender, credit risk also results from reliance on the maintenance of collateral values. The Bank is therefore selective in the types of property accepted as collateral, the reliance on the appraisal of the property, and its geographic location.

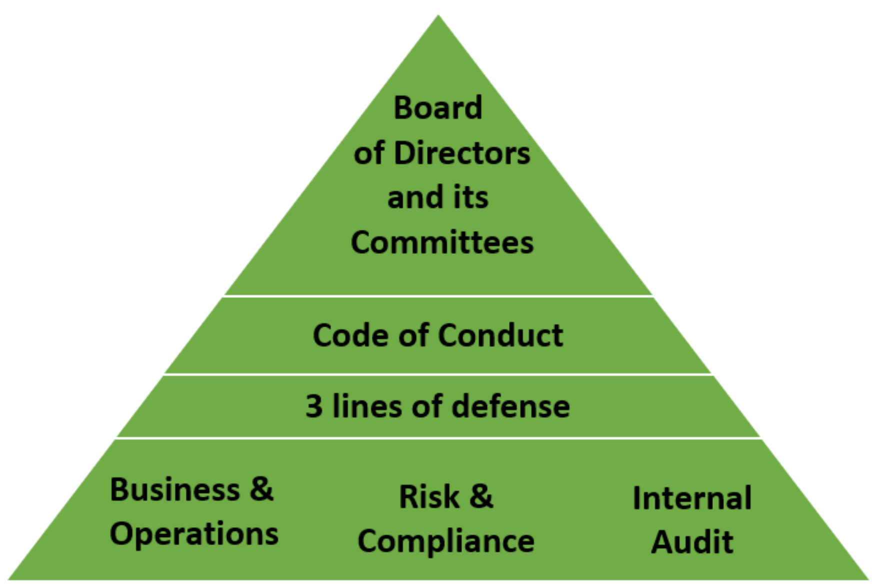
The Bank lends to borrowers in Ontario, British Columbia, Alberta, Manitoba, Quebec, Nova Scotia and Saskatchewan. Lending operations outside of Ontario began in 2018 and as such, the geographic distribution of the Bank's lending portfolio does not yet reflect the long-term desired distribution based on population and adjusted for variations in geographic risk appetite. Although some of these lending areas are among Canada's largest housing markets, a significant economic shock to the regional economy in Ontario could have a disproportionately adverse impact on the mortgage portfolio, in light of the general economic conditions and credit risks discussed above, compared to the impact for a lender with a more regionally or nationally diversified mortgage portfolio.

The Bank's credit risk profile has remained stable during the nine months of 2023. As anticipated, the Canadian real estate market has slowed during the quarter however home prices have remained surprisingly resilient. Unemployment continues to be low, and inflation appears to be slowing but still above the Bank of Canada's target. The Bank of Canada has kept its options open to further increases in interest rates this Fall. As the loan book continues to be repriced from the low rates of 2022, early arrears and defaults have increased; however to date they have not resulted in significant losses due to active account management and loan to home values sufficient to protect the Bank. There is considerable uncertainty in the market due to global issues. While a sharp home price correction or sudden increase in unemployment is not expected, home prices are expected to continue to decline while rates remain high and borrowers are renewing at, in some cases, significantly higher rates than their existing mortgages. The economic factors contributing to this is expected to continue into at least the first half of 2024.

Three Lines of Defense

The Bank uses the Three Lines of Defense model to clarify the roles and responsibilities of the members of senior management and individuals and improve the effectiveness of the internal control framework ("ICF"). The Three Lines of Defense are:

- **Operational Management** own and manage all material business risks and establishes mitigating controls as well as design processes and addresses control deficiencies.
- **Risk Management and Compliance** independently oversee all material risks, facilitate and challenge risk and compliance control self-assessments and report findings and recommendations to Risk and Capital Committee of the Board.
- **Internal Audit** provides independent assurance that the 1st and 2nd line processes remain effective and reports findings and recommendations to the Audit and Conduct Review Committee of the Board.



4. OPERATIONAL RISK MANAGEMENT

Operational risk, which is inherent in all business activities, is the potential for loss as a result of external events, human behaviours (including error and fraud, non-compliance with mandated policies and procedures or other inappropriate behaviour) or inadequacy, or the failure of processes, procedures or controls. The impact may include financial loss, loss of reputation, loss of competitive position or regulatory penalties. While operational risk cannot be eliminated, the Bank takes reasonable steps to mitigate this risk by putting in place a system of oversight, policies, procedures and internal controls.

The Bank has established an Enterprise Risk Management ("ERM") Framework that is a Board approved, systematic and integrated process that enables senior management to effectively manage material risks impacting the operation of the Bank, the achievement of strategic and business objectives and the deployment of capital. The ERM Framework is designed to foster a strong risk management and compliance culture by identifying, measuring, mitigating, monitoring and reporting all material operational risks and material events faced by the Bank in pursuit of its strategic goals and objectives. It is an ongoing process involving the Board, senior management and other personnel.

The Risk Appetite Framework ("RAF") provides a structured process to identity, quantify and limit the amount of risk that the Bank is willing to take in the pursuit of its strategic goals and objectives. The RAF is an integral part of the ERM Framework which identifies, measures, mitigates, monitors, and reports all material risks faced by the Bank in its day-to-day operations. The Banks strategic, business, financial and capital plans are all designed and structured to align with the RAF.

The Bank's Operational Risk Management program outlines the internal risk and control structure to manage operational risk and includes the following key components:

- **Risk and control self-assessments** ("RCSAs") are one of the primary tools used to identify and assess inherent operational risks and the design effectiveness of mitigating controls within individual business units, as well as on a Bank-wide basis.
- **Risk indicators** ("RIs") are used to monitor main drivers of exposure associated with key operational risks which provide insight into control weaknesses and help to determine the Bank's residual risk. RIs, paired with escalation and monitoring triggers, act to identify risk trends, warn when risk levels approach or exceed thresholds or limits, and prompt actions and mitigation plans to be undertaken.
- **Other operational risk management tools** are used as part of the Bank's operational risk management framework and include operational risk taxonomy, internal and external operational risk event collection and analysis, change management risk and control assessments.
- **Risk measurement and reporting** are performed by business, support functions and the second and third lines of defense as set out in their respective mandates and key policies on a regular basis. All material operational risk events, policy breaches and financial losses are reported to the ERM Committee and Risk and Capital Committee by the applicable senior management team member and Chief Risk Officer as soon as the event occurs.
- **Business continuity plan management** and disaster recovery plans ensures the consistent availability and delivery of products and services. The plans incorporate all significant business activities and services provided by both the Bank and third parties and detail the mission critical procedures and processes that are to be followed in the case of unavailability of functionality and/or business premises. All key business units within the Bank are required to maintain, and test and review, their business continuity plans.
- **Information technology cyber security self-assessment of risk and controls** are used to assess security risks arising out of day-to-day activities are assessed to understand the impact of such risks. These risks and controls are mapped to the industry benchmark of Center for Internet Security, Inc ("CIS"). CIS provides global standards for internet security and is a recognized global standard and best practices for securing IT systems and data against attacks.
- **Stress testing** is conducted on an annual basis through the Bank's Internal Capital Adequacy Assessment Process where the estimation of operational risk exposure is computed. Stress testing assesses the potential impact of severe negative events on key risks and critical business processes in order to inform risk management. It helps management identify and understand the impact of certain events that affects the Bank and develop mitigation measure or controls that aim to help manage risk.
- **Insurance** is utilized to mitigate and reduce potential future losses related to operational risk. Risk management includes oversight of the effective use of insurance aligned with the Bank's risk management strategy and risk

appetite. The management process includes conducting regular risk and financial analysis and identifying opportunities to transfer elements of the Bank's risk to third parties where appropriate.

- **Operational risk capital management** is determined using Basel III Simplified Standardized Approach for calculating its operational risk capital charge, effective Q2 2023. Under this approach, the Bank applies prescribed factors to a three year-average of annual adjusted gross income. Prior to this the Bank used the Basic Indicator Approach under Basel II for calculating its operational risk capital charge.

5. LIQUIDITY RISK

Liquidity risk is defined as the possibility the Bank will be unable to generate or maintain sufficient cash or cash equivalents, in a timely manner, to meet its commitments as they become due.

Managing liquidity risk requires management to maintain sufficient liquid assets on hand at all times to pay cash obligations, in a timely manner, such as maturing deposits and deposit interest, new mortgage commitments, lines of credit, accounts payables, accrued liabilities and other business obligations.

The Bank has established a liquidity management framework which includes the following:

- A Board-approved policy that quantifies the Bank's liquidity risk tolerance and minimum liquidity requirements;
- A monitoring and risk control framework that forecasts cash inflows and outflows and contractual liquidity commitments for short and long-term horizons;
- Requirements for the diversification of funding sources;
- The maintenance of a liquidity reserve consisting of cash and cash equivalents and high-quality liquid assets ("HQLA");
- Daily reporting that measures compliance with Board-approved limits;
- Periodic stress testing of liquidity assumptions and forecasts, which may include company specific liquidity shocks, exogenous systemic disruptions, or combinations of both; and
- A liquidity contingency plan that considers several scenarios according to which the Bank's liquidity operations could be disrupted and details what actions will be followed under each scenario.

The Asset-Liability Committee ("ALCO") is comprised of members of senior management and is charged with monitoring the Bank's liquidity exposures. ALCO periodically reviews liquidity policies and procedures as appropriate to evolving business requirements and makes recommendations for policy amendments to the Board as required. ALCO also reviews the results of periodic stress tests and may direct management to temporarily alter its liquidity strategy accordingly.

The Bank's Board has established minimum liquidity requirement limits using measures required under Basel III or included in OSFI's Liquidity Adequacy Requirements Guideline ("LARG"):

- Liquidity Coverage Ratio ("LCR"): the ratio of the Bank's HQLA reserve to net cash inflows and outflows for a specified time horizon; and
- Net Cumulative Cash Flow ("NCCF"): a metric that helps identify gaps between contractual inflows and outflows for various time bands over and up to a 12-month time horizon.

The appropriateness of these limits is reviewed from time to time by ALCO in light of prevailing and anticipated business conditions.

6. INTEREST RATE RISK

Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect the Bank's profitability and financial condition. Interest rate risk may be affected if an unduly large proportion of assets or liabilities have unmatched terms, interest rates or other attributes. The primary method of managing interest rate risk involves matching asset and liability maturity profiles, closely monitoring interest rates and acting upon any mismatch in a timely manner to ensure that any sudden or prolonged change in interest rates does not adversely affect net interest income. Any failure to appropriately match asset and liability maturity profiles could negatively impact the operating results and financial condition of the Bank. From time to time, the Bank employs derivative instruments to hedge interest rate risk. Where appropriate, hedge accounting is applied 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 is governed by a Board-approved policy that permits the use of derivatives for the purpose of hedging asset-liability mismatches.

7. MARKET RISK

Market risk is the exposure to adverse changes in the value of financial assets. Market risk factors include price risk on debt securities. The Bank mitigates this risk by investing only in high-quality, liquid assets guaranteed by the Government of Canada, its provinces or municipalities and actively monitoring the investments.

8. REMUNERATION

Compensation Process

The Board of Directors has overall responsibility for determining and implementing the Bank's philosophy with respect to executive compensation. The Governance and Human Resources Committee ("GHRC") is responsible for the establishment and oversight of the compensation of senior management including, the Chief Executive Officer ("CEO"), Chief Financial Officer, Chief Compliance Officer, Chief Risk Officer, Chief Operating Officer, Chief Human Resources Officer, Vice President, Information Technology, Vice President, Internal Audit, Vice President, Mortgage Servicing, Vice President, Mortgage Originations and Vice President, Finance. This includes setting or reviewing the objectives of and reviewing performance under compensation, benefits and perquisites program for senior management. The GHRC establishes performance criteria, evaluates performance and sets compensation for the CEO.

In this regard, the CEO provides the GHRC with evaluations of executive performance, business goals and objectives and recommendations regarding salary levels, bonuses and equity awards. Benchmarking of comparably sized financial services organizations is done using an external Compensation Consultant to ensure external competitiveness and internal consistency.

Compensation Philosophy and Objectives

The Bank's compensation program is designed to attract, motivate, reward and retain the personnel required to achieve business goals and objectives. In doing so, the Bank focuses on total compensation rather than individual elements of pay and the same compensation philosophy applies to all employees, including management, executive and senior officers. The senior management team was compensated through a mix of base salary, annual incentive bonus, stock options, restricted share units and benefits.

Compensation Related Risks

The GHRC recognizes that certain elements of compensation could promote unintended or inappropriate risk-taking behaviours. The GHRC has sought to minimize the Bank's risk exposure by ensuring that an executive compensation package is comprised of a mix of cash and equity compensation, balancing short-term incentives (i.e. cash bonuses) and long-term incentives (i.e. option grants). This helps ensure that executive performance is aligned with the interests of the Bank. The GHRC has continued this risk management and oversight process in respect of compensation through the ongoing review and identification of relevant risks in respect of the Bank's compensation practices and the maintenance of an active dialogue between management, the Board of Directors and the GHRC in respect of the implementation of policies and practices to mitigate such risks.

Executive compensation risk management is reinforced by ongoing oversight by the Board of Directors of, among other things, the Bank's financial results, regulatory disclosures, strategic plans, fraud and error reporting, the Audit Committee's regular meetings with the external auditors (including without the presence of management), the Bank's internal controls, management information systems, and financial control systems.

Components of Executive Compensation

Compensation consists of three main elements: base salary, short-term variable compensation incentives (cash bonus) and long-term incentives (stock options). The percentage of each element of compensation is aligned with the individual's responsibility and ability to influence business results. The incentive opportunity varies with the performance and level of responsibility and is established annually by the Board of Directors for the CEO, and by the CEO for the other members of senior management with the approval of the Board of Directors.

Details of the main elements of senior management compensation are:

1) Base Salary – Base salary provides a fixed level of income based on the individual's demonstrated ability to perform the role, the market value for the role and also having regard to the individual's responsibilities, years of service, potential for advancement and the assessment of the GHRC. Base salary for the CEO is reviewed by the GHRC and approved by the Board of Directors. Base salaries for the other executives are reviewed by the CEO and the GHRC and approved by the Board of Directors.

2) Short-Term Variable Compensation Incentives

The Board of Directors believes that a substantial portion of the compensation paid to the senior management should be at risk, contingent on achieving measurable operating results and metrics and personal performance. Annual non-equity performance-based awards are paid in cash following the completion of the audit of year-end financial results based upon satisfaction of individual, business unit, corporate financial and operational goals. The short-term incentive program will only pay out if certain minimum corporate financial targets are met.

The Board of Directors, on the recommendation of the GHRC, set the variable compensation award targets based on the achievement of specific annual performance objectives that support the operating, profitability and strategic goals of the Bank. Performance goals are set by the Board of Directors based on the business plan, business strategies and objectives related to building value for the Bank (for instance, size of the mortgage loan book and net income).

The GHRC, on the approval of the Board of Directors, sets variable compensation targets for the CEO annually at the start of the financial year and recommends to the Board of Directors the variable compensation to be paid to the CEO following the end of the financial year upon approval of the audited financial statements. In turn, the CEO, with the approval of the GHRC and the Board of Directors, sets variable compensation targets annually at the start of the financial year and determines the variable compensation to be paid to the other senior management upon approval of the audited annual financial statements.

3) Long-Term Incentives

The Bank's long-term incentive plans ("LTIP") rewards performance that is aligned to the creation of shareholder value. The LTIP consists of stock options and restricted share units. Options and restricted share units are granted by the Board of Directors on the recommendation of the CEO and the GHRC to provide to members of senior management. To ensure consistency, senior management awards are based on established targets which vary depending on the individual's position and the achievement of a set of long-term objectives established by the CEO and the Board of Directors that support the execution of the long-term strategy of the Bank.