



Duo Bank of Canada

Basel III Pillar 3 Disclosures

As at December 31, 2021

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DOCUMENT OVERVIEW

This document represents the Basel III Pillar 3 disclosures for Duo Bank of Canada (the "Bank") as at December 31, 2021 pursuant to OSFI's Pillar 3 Disclosure Requirements. This report is unaudited and is reported in thousands of Canadian Dollars, unless otherwise disclosed.

REPORTING ENTITY

The Bank is a Schedule I Canadian chartered bank governed by the Bank Act (Canada), and is a wholly owned subsidiary of Duo Financial Corporation (the "Parent"). The Bank received orders to commence and carry on business on June 1, 2010 and launched the Walmart Rewards™ Mastercard® in June 2010.

In September 2019, the Bank launched a broker originated GIC program. These GIC's are eligible for deposit insurance from Canadian Deposit Insurance Corporation.

On January 4, 2021, the Bank completed the acquisition of 100 percent of the outstanding shares of Fairstone Financial Holdings Inc ("Fairstone"), a Canadian non-bank provider of responsible lending solutions, with a network of branches and retail / auto partners. OSFI formally approved the transaction in October of 2021.

The Bank's service offerings are provided through two business lines: Direct Lending and Indirect Lending. The Direct Lending business offers near-prime customers unsecured personal loans, secured personal loans, mortgages and optional ancillary products such as creditor insurance to consumers online and in over 240 branches from coast to coast. The Indirect Lending business currently encompasses credit cards, rewards programs and related protection services, retail point-of-sale ("RPOS") financing through merchants, and automobile financing through dealerships.

The Bank is not considered a Domestically Systematically Important Bank (DSIB) by OSFI.

FINANCIAL RISK MANAGEMENT

The Bank is exposed to credit risk, interest rate risk, and liquidity risk arising from its operations and use of financial instruments. The Bank does not have any trading book portfolios, and as such, has low exposure overall to market risk.

Risk Management Overview

The Enterprise Risk Management Framework (the "Framework" or "ERMF") describes the Bank's approach to risk management 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.

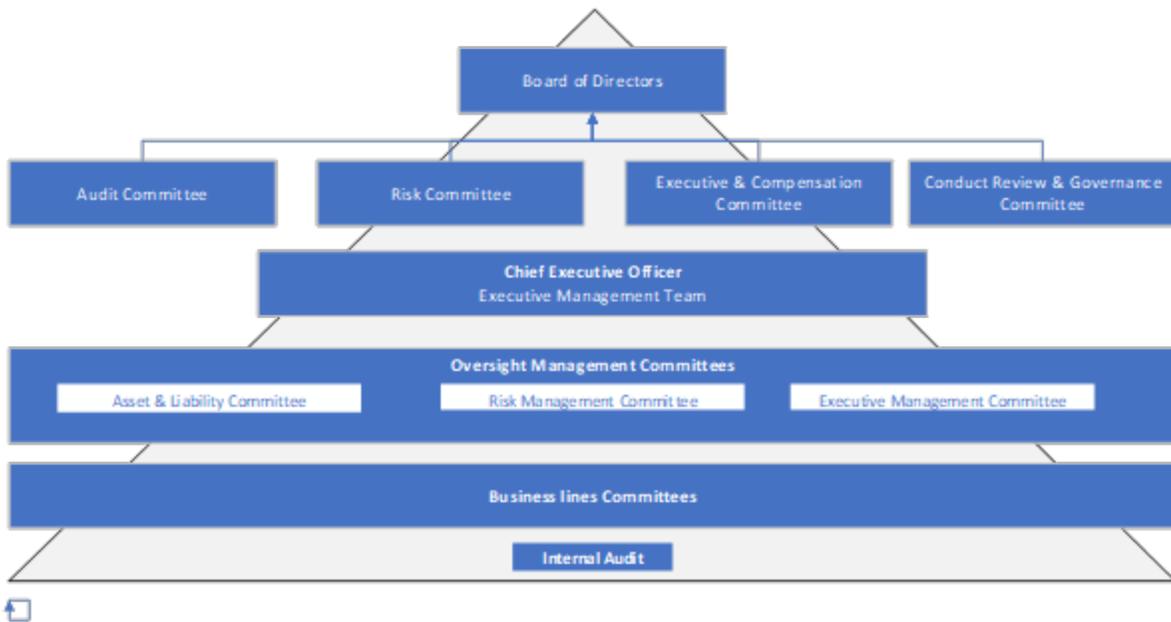
The ERMF reinforces the Bank's risk culture and risk environment and supports a common understanding amongst stakeholders of how the Bank manages risk in each of the following areas:

- Risk Culture
- Risk Inventory

- Risk Appetite
- Governance & Organization
- Program Objectives

Risk Governance

Risk Management Governance exists at the Company through its Board of Directors, Board Committees, Management Committees and Senior Management. Each play a role in the Company's *Three lines of Defense*.



Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk for the Bank arises principally from the Bank's consumer loans to customers.

The Board is responsible for the oversight of credit risk management. The Risk Management Committee (RMC), under the oversight of the Board, monitors and approves the credit risk management program. The RMC supports the Chief Risk Officer and the credit department in the following:

Development and implementation of sound and prudent policies and procedures to effectively manage and control credit risk. Policies include credit assessment criteria, risk grading and reporting, documentation and compliance for legal, regulatory or statutory requirements.

Development and implementation of effective credit granting, account management and collection processes. Processes include approval authority management, diversification of credit limits, credit risk assessment, credit application evaluation, fraud identification and management, and write-offs.

Development and implementation of comprehensive procedures to effectively monitor and control the nature, characteristics, and quality of the credit portfolio. This includes reporting, portfolio

characteristic monitoring, concentration reviews, risk grading monitoring, and credit review processes.

Detailed disclosures pertaining to Credit Risk are located in Appendix B.

Market risk

Market risk is risk arising from our exposure to a gain or loss in the value of our financial instruments because of changes in market prices. The Bank does not have any trading book portfolios, and as such, has low exposure overall to market risk.

Equity risk

Equity risk is risk arising from holding equity in a particular investment. The Bank has low exposure to equity risk since it does not have material equity holdings.

Interest Rate Risk

Interest rate risk is risk of loss arising from changes in interest rates or in the volatility of interest rates. The Bank is exposed to interest rate risk through its variable rate debt financing and from repricing of future financings. The Asset & Liability Committee (ALCO) monitors this mismatch to the Bank's fixed rate consumer loans, as well as interest rate movements in Canada, and reports to the Board. The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and financial liabilities to rate shift scenarios. Detailed disclosures pertaining to Interest Rate Risk are located in Appendix C.

Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet commitments and obligations when due or may incur significant costs in meeting obligations. The Bank manages its exposure to short-term and long-term liquidity by ensuring that adequate governance, policies, and procedures are in place to manage cash on a daily, weekly, and monthly basis. Long-range planning and forecasting tools are used to monitor long-term funding needs. The ALCO monitors both short-term and long-term needs. A liquidity contingency plan is also in place to ensure funding needs are met during a crisis.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, systems or human factors, or from external events. The Bank manages its exposure to operational risk through the implementation of assessment methods, including operational risk self-assessments and loss tracking. The Bank uses the basic indicator approach to measure operational risk.

CAPITAL MANAGEMENT

The Capital Management Policy of the Bank requires management to annually submit a 3-year Business Plan and Capital Plan to the Board for approval. These plans outline the Bank's Capital needs, target Capital levels and the sources of additional Capital required after considering planned growth, economic factors, and the adequacy of Capital relative to material risks. The Bank's stress testing program is intimately aligned with Capital planning. The stress tests are used to gauge the appropriate amount of Capital to maintain and inject, when appropriate, to ensure that the Bank is adequately capitalized to withstand standardized and management informed stresses.

The Bank ensures sufficient Capital to:

- Exceed regulatory requirements
- Support the Bank's risk appetite
- Allow continued growth
- Absorb unexpected losses
- Remain in excess of regulatory minimums in the event of a potential stress event(s)

The capital structure of the Bank consists of the following which combine to form the Bank's Gross Common Equity Tier I Capital:

- Common Shares;
- Contributed Surplus;
- Retained Earnings; and
- Accumulated Other Comprehensive Income ("AOCI")

The Bank is authorized to issue an unlimited number of preferred shares, without nominal or par value, for unlimited consideration. These have preference over common shares. There were no preferred shares outstanding at December 31, 2021.

The Bank is authorized to issue an unlimited number of its common shares, without nominal or par value, for unlimited consideration. As at December 31, 2021, the Bank had 1,636,478,603 common shares issued and outstanding.

Regulatory Capital Position

The Bank calculates its regulatory capital based on the following methodologies:

The Bank manages its credit risk using the standardized approach and the Bank's operational risk is monitored using the Basic Indicator Approach.

The Bank's regulatory capital consists of Tier 1 and Tier 2 capital. Tier 1 capital includes ordinary share capital, retained earnings and accumulated other comprehensive income. Tier 2 capital includes the OSFI-approved amounts relating to the Bank's IFRS 9 General Allowances, up to a maximum of 1.25% of Credit Risk Weighted Assets.

The Bank has complied with all externally and internally imposed capital requirements throughout the year. Management uses regulatory capital ratios in order to monitor its capital base. These capital ratios remain the international standards for measuring capital adequacy. The Bank's policies in respect of capital management are reviewed regularly by the Board.

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and exposures not recognized in the statement of financial position.

The Bank's regulatory capital position under Basel III as at December 31, 2021 is outlined in Appendix A.

APPENDIX A

BASEL III COMMON DISCLOSURES

As at December 31, 2021

BCAR CALCULATIONS		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	1,582,587
2	Retained earnings	184,214
3	Accumulated other comprehensive income (and other reserves)	10,639
6	Common Equity Tier 1 capital before regulatory adjustments	1,777,440
28	Total regulatory adjustments to Common Equity Tier 1	(782,091)
29	Common Equity Tier 1 capital (CET1)	995,349
29a	Common Equity Tier 1 capital (CET1) with transitional arrangements for ECL provisioning not applied	995,349
45	Tier 1 capital (T1 = CET1 + AT1)	995,349
45a	Tier 1 capital (T1 = CET1 + AT1) with transitional arrangements for ECL provisioning not applied	995,349
51	Tier 2 capital before regulatory adjustments	45,251
57	Total regulatory adjustments to Tier 2 capital	(80)
58	Tier 2 capital (T2)	45,171
59	Total capital (TC = T1 + T2)	1,040,520
59a	Total capital (TC = T1 + T2) with transitional arrangements for ECL provisioning not applied	1,040,520
60	Total risk-weighted assets	5,354,827
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	18.59
62	Tier 1 (as percentage of risk-weighted assets)	18.59
63	Total capital (as percentage of risk-weighted assets)	19.43
61a	Common Equity Tier 1 (as percentage of risk-weighted assets) with transitional arrangements for ECL provisioning not applied	18.59
62a	Tier 1 (as percentage of risk-weighted assets) with transitional arrangements for ECL provisioning not applied	18.59
63a	Total capital (as percentage of risk-weighted assets) with transitional arrangements for ECL provisioning not applied	19.43
69	Common Equity Tier 1 capital all-in target ratio	7.0
70	Tier 1 capital all-in target ratio	8.5
71	Total capital all-in target ratio	10.5

LEVERAGE RATIO FRAMEWORK		
On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	5,443,119
4	(Asset amounts deducted in determining Basel III "all-in" Tier 1 capital)	(782,171)
5	Total on-balance sheet exposures (excluding derivatives and SFTs)	4,660,948
Derivative exposures		
6	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	8,868
7	Add-on amounts for PFE associated with all derivative transactions	6,681
11	Total derivative exposures	15,549
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	5,878,886
18	(Adjustments for conversion to credit equivalent amounts)	(5,290,997)
19	Off-balance sheet items	587,889
Capital and Total Exposures		
20	Tier 1 capital	995,349
20a	Tier 1 capital with transitional arrangements for ECL provisioning not applied	995,349
21	Total Exposures	5,264,386
Leverage Ratios		
22	Basel III leverage ratio	18.91%
22a	Basel III leverage ratio with transitional arrangements for ECL provisioning not applied	18.91%

APPENDIX B: CREDIT RISK

GENERAL AND QUANTITATIVE DISCLOSURES

The following information provides quantitative analysis of the Bank's total consumer loan portfolio by account balance, credit limit, delinquency and geography.

Account Balances	Receivables Outstanding	% of Receivables
Credit Balance	\$(18,616)	-0.4%
Less than or equal to \$500.00	\$70,575	1.6%
\$500.01 - \$1,000.00	\$ 160,285	3.6%
\$1,000.01 - \$3,000.00	\$ 602,437	13.5%
\$3,000.01 - \$5,000.00	\$ 956,959	21.4%
\$5,000.01 - \$10,000.00	\$465,600	10.4%
Greater than \$10,000.00	\$ 2,226,218	49.9%
Total¹	\$4,463,458	100.0%

Note 1: As reported on the BH regulatory submission

Credit Limits	Receivables Outstanding	% of Receivables
Less than or equal to \$500.00	\$52,982	1.2%
\$500.01 - \$1,000.00	\$75,742	1.7%
\$1,000.01 - \$3,000.00	\$320,187	7.2%
\$3,000.01 - \$5,000.00	\$917,553	20.6%
\$5,000.01 - \$10,000.00	\$589,633	13.2%
Greater than \$10,000.00	\$2,507,360	56.2%
Total¹	\$4,463,458	100.0%

Note 1: As reported on the BH regulatory submission

Days Delinquent	Receivables Outstanding	% of Receivables
Current ¹	\$4,105,871	92.0%
1 day to 29 days	\$217,370	4.9%
30 days to 59 days	\$38,250	0.9%
60 days to 89 days	\$27,364	0.6%
90 days to 119 days	\$21,885	0.5%
120 days to 159 days	\$18,587	0.4%
160 days to 179 days	\$34,130	0.8%
Total²	\$4,463,458	100.0%

Note 1: Current category includes zero balance and credit balances

Note 2: As reported on the BH regulatory submission

By Province	Receivables Outstanding	% of Receivables
Alberta	\$663,548	14.9%
British Columbia	\$438,911	9.8%
Manitoba	\$228,032	5.1%
New Brunswick	\$187,383	4.2%
Newfoundland	\$212,777	4.8%
Northwest Territory	\$7,155	0.2%
Nova Scotia	\$187,171	4.2%
Nunavut Territory	\$321	0.0%
Ontario	\$1,600,568	35.9%
Prince Edward Island	\$26,220	0.6%
Quebec	\$727,016	16.3%
Saskatchewan	\$174,656	3.9%
Yukon Territory	\$9,639	0.2%
US	\$60	0.0%
Other	\$0	0.0%
Total¹	\$4,463,458	100.0%

Note 1: As reported on the BH regulatory submission

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit card losses is established using an Expected Credit Loss (“ECL”) model in accordance with IFRS 9. The ECL allowances reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecast of future economic conditions. The allowance for credit losses is maintained at a level that management considers appropriate to cover estimated credit related losses in the consumer loan portfolio. The ECL model requires considerable judgment, including the use of macroeconomic forecasts across multiple growth scenarios.

Loans are considered impaired when there is objective evidence of deterioration in the credit quality to the extent that there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Loans are charged-off based on product type, as detailed in the below chart:

Loan Product	Charge-off Policy
Credit Cards Loans	Credit card balances are charged off on the account cycle date after a payment is 180 or more days in arrears.
Unsecured Personal Loans	Personal unsecured loans are charged off when payments are 180 days contractually past due and if there have been no payments within the last six months, but in no event can these loans exceed 360 days contractually past due. Personal unsecured loans in bankruptcy are charged off in the month following notification of bankruptcy.
Secured Personal Loans	Personal secured and real estate mortgage loans that are in process of foreclosure (a process that typically commences when payments are 60 days contractually past due) are written down to the estimated value of the property, less costs to sell. Personal secured and real estate mortgage loans that are not in process of foreclosure, including the loans in bankruptcy are charged off at the earlier of being both six months contractually delinquent and six months without a contractual payment, but in no event can these loans exceed 360 days contractually past due.
Retail-Point of Sale Loans	RPOS loans are charged off when the account is 180 days contractually past due. RPOS in bankruptcy are charged off in the month following notification of bankruptcy.
Automobile Financing Loans	Automobile financing loans are evaluated for repossession after 60 days contractually past due. If repossession is pursued, expected losses are recognized at that time by estimating the value of the vehicle, less estimated costs to sell. Auto financing loans are charged-off when the account is 180 days contractually past due.

The following are the changes in the allowance for credit losses for 2021:

Allowance for Credit Losses, beginning of year	\$177,460
Provision for Credit Losses	\$375,899
Recoveries	\$53,918
Write-offs	(\$249,107)
<hr/>	<hr/>
Allowance for Credit Losses, end of year ¹	\$358,170

Note 1: As reported on the C3 regulatory submission

DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDIZED APPROACH

The Bank invests in government issued securities, cash deposits and short-term investments with regulated financial institutions (see details in General Disclosure for Exposures Related to Counterparty Credit Risk table below).

DISCLOSURES FOR PORTFOLIOS SUBJECT TO IRB APPROACHES

The Bank manages credit risk using the standardized approach, and as such, the bank does not have any portfolios subject to the Internal Ratings-Based (IRB) approach.

CREDIT RISK MITIGATION

The Bank invests in government issued or guaranteed securities and deposits with regulated financial institutions. The Bank's loans receivable consists of credit card loans, unsecured personal loans, secured personal loans, retail-point of sale loans, real estate mortgages and automobile financing loans. The majority of the loan portfolio is unsecured and the entire portfolio is not guaranteed. However, based on the controls that are specified in the Credit Risk section in the first part of this document, the Bank is active in mitigating its credit risk.

GENERAL DISCLOSURE FOR EXPOSURES RELATED TO COUNTERPARTY CREDIT RISK

The Bank does not have large counterparty exposure to financial guarantors, investment banks or derivative counterparties. The Bank does not invest or enter into derivative transactions for speculative purposes.

The Bank uses derivative financial instruments in the form of interest rate swap and cross-currency interest rate swap contracts to mitigate its current and anticipated exposure to fluctuations in interest rate and foreign exchange rates. Terms of the derivative instruments coincide with the term of underlying contracts for which risk is being mitigated.

Counterparty credit risk exposure

	Amount	Risk Weight
Deposits with Regulated Financial Institutions	\$272,374	20%
Derivative Instruments	\$15,549	20%
Government Issued or Guaranteed Securities	\$0	0%
Total	\$287,923	

SECURITIZATION: DISCLOSURE FOR STANDARDIZED APPROACH

The Bank utilizes securitization as part of its diverse funding strategy and for capital efficiency purposes.

In March 2017, Fairstone established FFIT I to issue notes secured by a pool of secured and unsecured personal loans as well as retail point-of-sale accounts and FFIT II to issue notes secured by a pool of mortgages.

In March 2021, FFIT I Series 2019-1 Notes were redeemed at maturity of the revolving period and refinanced with existing capacity on FFIT I Series 2019-2 Notes. FFIT II Series 2017-1 and Series 2019-1 were redeemed in January 2021 and November 2021 respectively for their outstanding value and underlying assets were reconveyed and bought back by Fairstone. At the end of 2021, there were no amortizing notes outstanding for FFIT II and the revolving Series 2017-2 outstanding balance was nil.

In April 2019 the Bank established Canvas Cards Trust (CCT) and issued floating rate notes "Series 2019-1", which contain provisions that allow the outstanding debt to revolve for a specified period of time. During the revolving period, the monthly collection of credit card receivables is used to service the notes and any excess collection creates availability to fund further credit card loans extended to customers. Upon expiration of the revolving period, the floating rate notes begin amortizing.

For legal purposes, the Bank has sold a co-ownership interest in the loans which are beyond the reach of the Bank's creditors. However, as the Bank retains exposure to substantially all the risks and rewards of the transferred co-ownership interest in the loans and continues to control the structured entities, for financial reporting purposes, the Bank does not derecognize the transferred interest in the loans and consolidates CCT, FFIT I and FFIT II. The securitized interest in the loans therefore remain on the Bank's consolidated financial statements, subject to continued measurement at amortized cost and assessment for impairment. In addition, upon consolidation of the structured entities, the notes issued by the structured entities are included as liabilities on the Bank's consolidated financial statements and carried at amortized cost.

For regulatory capital purposes, the loans are considered part of risk weighted assets no differently than had they not been securitized.

As at December 31, 2021, the following table sets out the carrying value and fair value of the Bank's transferred co-ownership interest in the loans and the associated notes issued for each of CCT, FFIT I and FFIT II:

	2021	
	Carrying Value	Fair Value
Loans receivable transferred	3,228,083	3,228,083
Associated note liabilities	1,803,195	1,803,195

The investors in the notes are external parties and are not related to the Bank. The notes issued have the following terms and carrying value at December 31, 2021

Notes in Issue	Issuance Date	Maturity Date	Coupon Rate	2021
Senior notes				
CCT Series 2019-1	April 2019	March 2023	Variable	80,000
FFIT I Series 2020-1	October 2020	October 2039	3.24%	351,110
FFIT I Series 2019-2	October 2019	October 2023	Variable	1,376,000
FFIT II Series 2017-2	May 2017	March 2023	Variable	-
Unamortized Issuance Costs				(8,027)
Purchase Price Adjustments				4,112
				1,803,195

APPENDIX C: INTEREST RATE RISK

The Asset & Liability Committee oversees and assesses the following impacts resulting from a plus or minus 200 bps parallel shift in interest rates:

- Projected Net Interest Income (NII) over the next 12 months
- Net Economic Value (NEV)

The impacts have a close linear relation to the basis point shift. Consequently, a 100bps shift would impact NII and NEV half as much as a 200bps shift.

The limits for the interest rate impact are set at 20% for NII, and 12% for NEV. The results as at December 31, 2021 are as follows:

	Limit	% Impact
Net Interest Income	20%	-3%
Net Economic Value	12%	-2%

APPENDIX D: REMUNERATION

OVERALL COMPONENTS OF COMPENSATION

The Bank structures its approach to compensation to be aligned with market practices for the financial services industry while adhering to related regulatory requirements. Rewards are based on business performance objectives and are structured to incentivize associates to meet strategic business objectives.

Senior management remuneration is overseen by the Executive & Compensation Committee of the Board of Directors. None of the members of the Executive Committee are employees or officers of the Bank.

Compensation for senior management is comprised of base salary, short-term cash incentives, and long-term share-based incentives. Base salary is reviewed annually and as required by market conditions.

SHORT TERM INCENTIVE PLAN

The Bank's short-term incentive plan is called the Discretionary Bonus Program and is designed to motivate senior management to meet annual business and financial objectives. It is a variable, cash-based, incentive plan.

Every fiscal year, the business results are measured against specific financial and performance goals. To avoid inappropriate risks, senior management's bonus is based on the financial performance against a variety of measures. This all-encompassing approach to bonus compensation ensures alignment across the senior management team and avoids risks that arise when senior management personnel have isolated performance targets. The control and oversight functions within the Bank have objectives consistent with their mandates.

The bonus program is a self-funded program that is expressed as a percentage of base salary determined by position and level within the organization. Depending on actual performance relative to set performance targets, cash payouts range from zero to the maximum target within each range.

LONG-TERM INCENTIVE PLAN

The Bank's equity-based long-term incentive plan is part of senior management's overall compensation structure. Awards are granted based on performance against annual objectives. Long-term incentives are awarded in the form of stock options, restricted share units (RSUs), and deferred share units (DSUs). The value of the stock options, RSUs and DSUs are directly linked to the change in value of Duo Financial Corporation's Common Shares.

Key management and Director compensation

	2021
Salaries, Director fees, and other short-term benefits	\$3,950,512
Share-based compensation	3,541,358
Other long-term benefits	86,063
	\$7,577,933