



Amex Bank of Canada

Basel III Pillar III Disclosures **December 31, 2013**



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1 Scope of application

This document has been prepared to address the Basel Pillar 3 disclosure requirements for Amex Bank of Canada (the Bank). The Bank, incorporated under the Bank Act of Canada (the Bank Act), is a wholly owned subsidiary of American Express Travel Related Services Company, Inc. (TRS Co.). The Bank is licensed to operate as a schedule II bank in Canada (foreign bank subsidiary). The Bank's principal activities include issuing credit cards, charge cards and lines of credit and providing merchant and network services in Canada.

TRS Co. is incorporated in the United States of America (USA). The ultimate parent company of the Bank, American Express Company (AXP) is a "Bank Holding Company" under the Bank Holding Company Act of the USA and is regulated by the Federal Reserve Board in the USA.

The following disclosures have been prepared solely for the purpose of satisfying the Basel Pillar 3 disclosure requirements pertaining to capital requirements and management of certain risks. These disclosures are unaudited and are not to be considered part of the Bank's financial statements. The disclosures should not be relied upon in making any investment in the Bank's ultimate parent company, AXP.

All amounts reported in these disclosures are presented in thousands of Canadian dollars, unless otherwise noted.

Risk management framework

The Bank is exposed to the following types of risks: credit, asset liability (which includes structural interest rate and foreign exchange risk), liquidity, operational, strategic and reputation risks. The objective of management and the Board of Directors of the Bank (the Board) is to minimize the Bank's exposure and to reduce business risks to acceptable levels.

Effective risk management is central to the Bank's ability to remain financially sound and the Bank has adopted an Enterprise Risk Management (ERM) Framework for the identification, measurement, monitoring and management of risks faced across the entity. The Bank's Enterprise Risk Management Policy (the ERM Policy) describes how the Bank seeks to manage key risks on an enterprise basis. The general framework for ERM has been approved by the Risk Review Committee (RRC) of the Bank's Board after recommendation by the VP & Chief Risk Officer (CRO) and the Enterprise Risk Management Committee (ERMC). It sets forth the Bank's risk appetite, assigns governance responsibilities to ensure that the Bank's risk profile aligns with that appetite, and prescribes rules for escalating risk issues between Committees, including the RRC. The ERM Policy also provides guidance to management for the development and maintenance of a framework for identifying, measuring and reporting risk concentrations throughout the Bank, and for the maintenance of risk policies addressed to particular types of risks.

Risk management structure

The details of the assignment of risk management responsibilities to the committees and key officers are detailed in the Bank's individual and committee mandates approved by the Board. The risk committees of the Bank are:

Risk Review Committee (RRC) of the Board of Directors
Enterprise Risk Management Committee (ERMC)
Operational Risk Management Committee (ORMC)
Credit Risk Committee (CRC)
Asset Liability Committee (ALCO)
Outsourcing Risk Committee (ORC)

Risk universe

The Bank's ERM framework includes the identification of the universe of risks (the "Risk Universe") inherent in the Bank's businesses. Policies, procedures, and risk limits are developed to ensure risks set out in the Risk Universe are managed within the risk appetite of the Bank. Senior management, officers and employees of the Bank are accountable for all risks inherent in their business operations. Risks are identified, assessed, managed, reported and monitored in accordance with the Bank's policies and procedures. The CRO is responsible for leading the development, maintenance and presentation of the Bank's Risk Universe. The Risk Universe is reviewed and approved by the RRC on an annual basis.

Aggregate risk

The Bank seeks to balance the aggregate amount of risk it accepts against its capital and earnings. To accomplish this, quantitative limits are established against internal risk measures and the levels of aggregate risk are monitored accordingly. The primary aggregate measure of risk used by the Bank is Economic Capital.

2 Capital structure and adequacy

The Bank follows the Capital Adequacy Requirements (CAR) Guidelines of the Office of the Superintendent of Financial Institutions (OSFI) for the measurement and reporting of its regulatory capital ratios. The guidelines are based on the capital framework issued by the Basel Committee on Banking Supervision, which includes Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework and Basel III: A global regulatory framework for more resilient banks and banking systems.

Consistent with OSFI requirements pertaining to simpler approaches under Basel III, the Bank has adopted the Standardized Approach to measuring credit risk and the Basic Indicator Approach to measuring operational risk. Market risk for the Bank is immaterial and currently does not meet the threshold requirements included in the CAR guideline for calculating and reporting Market Risk.

The Bank's primary capital management objectives are to:

- ensure that the Bank's capital is of sufficient quality and quantity to comply with, at all times, external regulatory requirements;
- maintain adequate capital to act as a safeguard for the variety of risks the Bank is exposed to; and
- maintain a strong capital base to support future business growth.

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The Board has ultimate responsibility for overseeing capital adequacy and capital management. The Board reviews and approves the Bank's Capital Policy, the annual capital plan and reviews the adherence to capital limits and targets.

The ALCO, chaired by the VP and Treasurer, establishes and maintains the capital management framework and an Internal Capital Adequacy Assessment Process (ICAAP), which it utilizes to achieve its capital goals and objectives. The Bank's ICAAP is an integrated enterprise wide process that encompasses the governance, management, and control of risk and capital functions within the Bank. It provides a framework for relating risks to capital requirements through the Bank's economic capital modeling and stress testing practices and helps determine the Bank's capital adequacy requirements.

The ALCO assesses whether the Bank's internal view of required capital is appropriate for the Bank's risks, determines the adequacy of the Bank's available capital in relation to required capital and recommends internal capital targets, over and above the minimum levels established by OSFI, which align with the Bank's risk appetite and are approved by the Board.

As at December 31, 2013, under the Basel III framework, the regulatory capital of the Bank consisted of Common Equity Tier 1 capital (common shares, retained earnings, contributed surplus and other comprehensive income). As at December 31, 2013, the Bank had no Tier 2 capital.

The following table presents the Bank's regulatory capital and capital ratios. As at December 31, 2013, the Bank was in compliance with the capital guidelines issued by OSFI under Basel III, as well as its internal requirements.

Basel III Framework

As at December 31:

Regulatory capital

	2013
Common shares	206,000
Contributed surplus	9,155
Other comprehensive income	78
Retained earnings	570,423
Common Equity Tier 1 capital	785,656
Regulatory adjustments to Common Equity Tier 1 capital	(2,060)
Tier 1 capital	783,596
Total capital	783,596

Risk weighted assets

Credit risk	3,614,748
Operational risk	1,419,188
Total risk-adjusted assets	5,033,936

Capital ratios

Tier 1 ratio	15.57%
Total capital ratio	15.57%

The Bank is currently exceeding all minimum capital adequacy requirements under Basel III.

3 Credit risk management

One of the most significant risks to the Bank is credit risk. Credit risk is the risk of loss if a borrower or counterparty in a transaction fails to meet its agreed payment obligations resulting in the Bank incurring a financial loss.

Every loan or extension of credit by the Bank to other parties exposes the Bank to some degree of credit risk. The Bank's primary objective is to be methodical in our credit risk assessment so that we can better understand, select, and manage our exposures to reduce significant fluctuations in earnings.

The Bank recognizes that its ability to accept and manage credit risk successfully depends on the sound design and implementation of business processes and risk controls.

Credit Risk Committee structure

The RRC, the President & Chief Executive Officer (CEO), the VP & Chief Risk Officer (CRO) and the ERMC have responsibility for risk management at the Bank. To support the RRC, the CEO, the CRO and the ERMC in the exercise of that responsibility, the Bank has established a management-level governance structure to oversee and direct the management of credit risks in the Bank.

The principles that are applied in the management of credit risk include, but are not limited to:

- The Bank's CRC meets monthly to review significant accounts, breach of review triggers and to review and approve changes to the Bank's credit policy. Credit triggers are escalated to the ERMC and to the RRC based on established threshold;
- Specific exposure and economic capital limits have been established for the reporting of significant credit exposures to the Board;
- Management of the Bank's overall loan portfolio to ensure broad diversification of credit risk and to limit concentrations of correlated risks (i.e. industry risks);

Credit risks in the Bank are divided into two broad categories: Individual and Institutional. The Bank defines individual credit risk as the risk of loss to the Bank due to non-payment of an amount contractually owed to the Bank by an individual, whether acting as an individual or on behalf of his or her small business or corporation. The Bank defines institutional credit risk as the risk of loss to the Bank due to non-payment of an amount contractually owed to the Bank by a business or organization; or due to a change in the credit quality of a security held in the Bank's investment or liquidity portfolios.

Individual and Institutional credit risks are measured separately and each have distinct risk management tools and metrics. Business units that create individual or institutional credit risk exposures of significant importance are supported by dedicated risk management teams, each led by a Chief Credit Officer (CCO). To preserve independence, risk officers have reporting relationships within the risk management organization and not to the business units. The CRO also has a reporting line, for functional purposes, to the RRC in addition to Bank and organizational reporting lines.

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The Bank recognizes that there is inherent credit risk associated with the Bank's assets which are presented as at December 31 in the following table:

	2013
Deposit with regulated financial institutions	294,441
Short term marketable securities	499,622
Cardmember receivables and loans, net of allowances	4,445,160
	<u>5,239,222</u>

Capital measurement of credit risk

In accordance with the Standardized Approach to measuring credit risk outlined in OSFI's CAR guideline, the Bank uses the Standard and Poor's information as the external credit assessment institution (ECAI) for claims on sovereign. For exposures to banks or deposit-taking institutions, the risk weight applied to a claim on the bank is dependent on the external credit assessment of the sovereign in the bank's country of incorporation. ECAI is not used for corporate exposures as the Bank has chosen to apply a 100% risk weight to corporate exposures.

The following table includes the Bank's net credit risk exposures, after risk mitigation, in each risk bucket as at December 31:

Risk buckets	2013
250%	9,955
150%	20,728
100%	644,361
75%	3,807,357
20%	294,441
0%	548,477
	<u>5,325,320</u>

Credit risk mitigation

Credit risk mitigation techniques available in the CAR Guideline include collateralized transactions, on-balance sheet netting and guarantees / credit derivatives. The Bank does not currently make use of on- and off-balance sheet netting or Credit derivatives.

The Bank holds certain collateral as security in the event that cardmember receivables age past due. The collateral is in the form of guarantees (letters of credit) and cash collateral, however these letters of credit are not used to mitigate exposures for regulatory capital purposes and the amount of exposure which is covered by letters of credit and cash collateral is not material as a percentage of the overall portfolio.

Additionally, the Bank has an agreement with a corporate customer whereby the customer is required to hold funds in an investment account which is hypothecated to the Bank. As at December 31, 2013 a balance of \$126,423 was owed to the Bank by the corporate customer. Effective Q2 2013, the Bank has opted to take the comprehensive approach for this specific collateralized transaction, where eligible financial collateral for this corporate customer is taken as a risk mitigation measure.

Individual credit risk mitigation

General principles and the overall framework for managing individual credit risk across the Bank are defined in the Bank's Individual Credit Risk Policy and are approved by the RRC. This policy is further supported by a highly organized structure of subordinate procedures covering all facets of consumer credit extension during the customer lifecycle, new account approvals, line management, authorizations, collections, and fraud prevention. These policies and procedures ensure consistent application of credit management principles and standardized reporting of asset quality and loss recognition. Moreover, individual credit risk management is supported by sophisticated proprietary scoring and decision-making models.

Credit underwriting decisions are made based on sophisticated evaluation of product economics and customer behavior predictions. The Bank has developed unique decision logic for each customer interaction and each decision benefits from sophisticated modeling capability that uses the most up-to-date proprietary information on customers, including payment history, purchase data, as well as insights from data feeds from credit bureaus.

Institutional credit risk mitigation

General principles and the overall framework for managing institutional credit risk across the Bank are defined in the Bank's Institutional Credit Risk Policy approved by the RRC. The ERMC is responsible for the implementation and enforcement of this policy and for providing guidance to the credit officers of each business unit with substantial institutional credit risk exposures, who in turn make investment decisions in core risk capabilities, ensure proper implementation of the underwriting standards and contractual rights of risk mitigation, monitor risk exposures, and determine risk mitigation actions.

The Bank has established a set of risk limits to ensure it can sustain potential losses from the credit risk it is taking without significant impediment to its ability to conduct business. These risk limits are defined in the Bank's ERM Policy. In addition, the Bank has established and maintains risk escalation thresholds for every institutional obligor to which it has credit exposure. The Bank also monitors the risk exposures to classes of institutional obligors in common industries, or with common credit ratings.

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Bank's total credit exposure. The Bank's customers generally operate in diverse industries, economic sectors and geographic regions. The Bank manages concentration risk in line with Board approved escalation triggers.

Single-name concentration, as well as other concentrations like industry segments, are thoroughly monitored as per the Institutional Credit Risk Policy of the Bank, which defines triggers for committee escalations. Actual single-name notional exposure and economic capital are monitored to ensure they are within approved escalation triggers. Trigger breaches are reviewed with Business Leaders, and a risk-return analysis is performed to justify request for trigger increase or scale-down of exposure. Report on single-name concentration, industry and rating concentration are presented to the CRC and ERMC monthly, and to the Board RRC quarterly.

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The following table presents the Bank's assets which are subject to credit risk, net of allowance for credit losses, by industry and counterparty risk at December 31:

	2013
Institutions ¹ , including cardmember receivables and loans	938,442
Individuals, including cardmember receivables and loans	3,754,069
Government and Agencies	546,711
	<u>5,239,222</u>

1 Institutions include corporations and financial institutions.

The following table represents the Bank's assets subject to a degree of credit risk by geographic distribution as at December 31, 2013:

	Western	Central	Other within and outside of Canada	Total
Within Canada by region:				
Deposits with regulated financial institutions	-	294,441	-	294,441
Short term marketable securities	-	499,622	-	499,622
Cardmember receivables and loans, net of allowances	1,219,568	3,055,234	170,357	4,445,159
	<u>1,219,568</u>	<u>3,849,297</u>	<u>170,357</u>	<u>5,239,222</u>

Collective allowance

For the purposes of a collective evaluation of impairment, cardmember loans and receivables are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due, according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. These adjustments relate to events and conditions existing at statement of financial position date to ensure reflection of incurred losses only.

Cardmember loans and receivables are classified as impaired when, in the opinion of management, there is reasonable doubt as to collectability, either in whole or in part, of principal and interest, which is generally determined by the number of days past due. Cardmember loans and receivables are considered past due when the cardmember has failed to make a payment when contractually due. Cardmember loans and receivables where the cardmember has filed for bankruptcy or where the cardmember has become deceased are written off upon receipt by the Bank of notification. Cardmember loans and receivables, other than bankrupt and deceased accounts, are written off if uncollected no later than 180 days past due.

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Impaired loans may include loans and receivables that have been modified for borrowers who are experiencing financial difficulties. The Bank may modify cardmember loans and receivables and such modifications may include reducing the interest rate or assessment fees on the loans and receivables and/or placing the cardmember on a fixed payment plan not exceeding 12 months. If the cardmember does not comply with these terms, then the loan or receivable agreement reverts back to its original terms.

As at December 31, 2013, the Bank had an allowance for loan losses of \$76,239, of which \$3,801 represents the allowance for institutional cardmember receivables and \$72,438 represents the allowance for individual cardmember receivables and loans. The following table includes cardmember loans and receivables which are past due as at December 31, 2013 by counterparty type:

	1 - 90 days past due
Individual cardmember receivables and loans past due and not impaired	90,718
Institutional cardmember receivables past due and not impaired	98,723

Included in the table below are the changes in the allowance for losses for the 12 months ended December 31:

	2013		
	Individual	Institutional	Total
Balance - beginning of year	71,786	3,506	75,292
Net write-offs	(95,699)	(7,460)	(103,159)
Provision for credit losses	96,351	7,755	104,106
Balance - end of year	72,438	3,801	76,239

As at December 31, 2013, the Bank had impaired individual cardmember loans of \$12,734.

Counterparty credit risk

The Bank manages its counterparty credit risk exposures by setting internal limits and escalation triggers based on total exposure and ratings of the counterparties. The CRO of the Bank monitors compliance to internal limits and reports to the CRC and ERM on a regular basis.

The Bank has derivatives in the form of foreign exchange funding forwards. Credit risk associated with the Bank's derivatives is limited to the risk that a derivative counterparty will not perform in accordance with the terms of the contract, however credit exposure related to the Bank's foreign exchange funding forwards is minimal because the Bank's sole derivative counterparty is a related company which has high credit ratings as assigned by the major credit rating agencies of Moody's Standard & Poor's, Fitch Ratings and DBRS.

Derivatives as at December 31:

	2013		
	Notional Amount	Fair Value (Assets)	Fair Value (Liabilities)
Foreign currency forwards	3,281	-	17

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets.

4 Asset liability management

Asset and Liability (ALM) risk is the risk to earnings or value resulting from unfavourable movements in market prices impacting the structural balance sheet. The Bank incurs ALM risk exposures as a natural accompaniment to its business model in the regular course of offering its products and services. The Bank's Asset Liability Management Policy describes how the Bank seeks to manage ALM risk in the banking book on an enterprise-wide basis. It assigns key governance responsibilities, prescribes rules for escalating risks to the ERM and RRC, and sets forth the Bank's guidelines for measuring, assessing, and reporting ALM risk. The policy is a Board-approved policy, maintained by the VP and Treasurer and is an integral part of the Enterprise-Wide Risk Management Policy.

Structural interest rate risk in the banking book

The Bank's interest rate risk exposure is primarily generated by interest rate risk in its card businesses. The primary source of interest rate risk to which the Bank is exposed is re-pricing risk. Timing differences in the maturity and re-pricing of the Bank's assets and liabilities may lead to changes in the Bank's earnings, net interest income and economic value. Other sources of interest rate risk such as yield curve risk, basis risk, and optionality risk are considered to be minimal sources of interest rate risk for the Bank.

Interest rate exposure within the Bank's card and other businesses is managed primarily by managing the proportion of total liabilities provided by variable-rate debt compared to fixed-rate debt.

The Bank has established Board approved limits and internal management triggers expressed in the form of Earnings at Risk and Economic Value of Equity. The Bank measures and monitors its exposure to structural interest rate risk by performing monthly analysis to measure the Bank's repricing risk under various interest rate stress scenarios. The Bank monitors and reports compliance with its management triggers and Board limits to the ALCO, ERM and RRC.

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The table below summarizes the re-pricing profiles of the Bank's financial instruments and other assets and liabilities at their carrying value as at December 31. Items are allocated to time periods by reference to the earlier of the next contractual interest rate re-pricing date and the maturity date.

	Floating rate	0 – 3 months	3 – 12 months	1 – 5 years	Non-rate sensitive	Total
2013						
Total assets	53,218	1,365,204	714,164	249,923	2,987,927	5,370,435
Total liabilities	1,197	2,340,074	446,272	775,000	1,022,236	4,584,779
Shareholders equity	-	-	-	-	785,656	785,656
Total liabilities and shareholders equity	1,197	2,340,074	446,272	775,000	1,807,892	5,370,435
Net interest rate gap	52,021	(974,870)	267,892	(525,077)	1,180,035	-

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 100 basis point change is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates. This effect is primarily determined by the volume of variable rate funding of charge card and fixed-rate lending products for which the interest rate exposure is not managed by derivative financial instruments.

As at December 31, if interest rates had been 100 basis points higher/lower and all other variables were held constant, the impact on the Bank's earnings would be:

	2013	
	Shift up	Shift down
Impact on income before income taxes	(14,456)	15,134
Impact on equity	17,591	(19,023)

Foreign exchange risk management

Foreign exchange rate risk is the risk of financial loss to the Bank due to adverse fluctuations in foreign exchange rates. Foreign exchange risk in the banking book is generated by foreign currency denominated balance sheet exposures and various card related business transactions. The Bank's foreign exchange risk is managed primarily by entering into agreements to buy and sell currencies on a spot basis or by hedging this exposure through the use of derivative financial instruments such as foreign exchange forwards. The objective of the Bank's policy with respect to foreign exchange risk is to limit and control exposure through strict hedging requirements in the context of authorized instruments and within defined limits by maintaining a fully hedged position on its foreign currency assets and liabilities at all times in order to mitigate foreign exchange risk to the Bank.

5 Liquidity risk management

Liquidity risk is defined as the inability of the Bank to meet its ongoing financial and business obligations as they become due at a reasonable cost. The Bank manages its liquidity risk by maintaining access to a diverse set of cash, readily-marketable securities and contingent sources of liquidity to ensure that it can continuously meet its business requirements and financial obligations.

The ALCO chaired by the VP and Treasurer oversees the Bank's liquidity risk management program. General principles and the overall framework for managing liquidity risk are defined in the Bank's Funding and Liquidity Risk Policy which describes how the Bank seeks to manage Funding and Liquidity Risk on an enterprise basis. It assigns key governance responsibilities, prescribes rules for escalating risks to the ERM and RRC and provides for the ongoing identification, assessment, measurement, monitoring and reporting of liquidity requirements which are approved by the ALCO, ERM and RRC. The Policy is a Board-approved policy, maintained by the VP and Treasurer and is an integral part of the ERM Policy.

The liquidity risk that the Bank is willing to accept is controlled through a Board approved liquidity risk tolerance which provides for the maintenance of a cushion of high quality, unencumbered liquid assets (Liquidity Buffer) to be held against identified funding requirements under stress for internally defined liquidity risk survival horizons.

In addition, the Bank maintains a contingency funding plan (CFP) in the event a material funding or liquidity crisis occurs. The Bank's CFP provides a framework for analyzing and responding to liquidity events that are both market- driven as well as institution-specific. The CFP describes the governance and protocol to be put into effect upon the occurrence of a liquidity event and details the roles and responsibilities of Senior Management and the Board.

6 Operational risk management

The Bank defines operational risk as the risk of not achieving business objectives due to inadequate or failed processes or information systems, human error or the external environment (e.g., natural disasters) including losses due to failures to comply with laws and regulations. This definition includes legal risk, but excludes strategic and reputation risk.

Operational risk is inherent in all business activities and can impact an organization through direct or indirect financial loss, brand damage, customer dissatisfaction, or legal or regulatory penalties. The Bank views its ability to accept and manage operational risk prudently and economically as an important aspect of its business model, with significant potential to generate earnings, drive profitable growth and build competitive advantage. The Bank seeks to manage and mitigate operational risk through the sound design, implementation and review of business processes, technological solutions and controls, both manual and automated.

General principles and the overall framework for managing operational risk across the Bank are defined in the Bank's Operational Risk Policy approved by the ERM. The ORM provides governance for the operational risk framework including related policies and is chaired by the Operational Risk Officer with member representation from business units and support groups. The business units have the responsibility for implementing the framework as well as for the day-to-day management of operational risk. Managing operational risk is an important priority for the Bank. The Bank Operational Risk Policy and Procedures comply with the Basel Committee's "Sound Practices for the Management and Supervision of Operational Risk" and the Office of Superintendent of Financial Institutions' ("OSFI") capital adequacy guidelines.

The Bank also has a reporting process that provides business unit leaders with operational risk information on a quarterly basis to help them assess the overall operational risks of their business units. These initiatives have resulted in improved operational risk intelligence and a heightened level of preparedness to manage risk events and conditions that may adversely impact the Bank's operations.

The overall effectiveness of the Bank's Operational Risk Management program is contingent upon the identification and mitigation of Operational Risk exposures and events. The Bank has developed a comprehensive program to identify, measure, monitor, and report inherent and emerging operational risks. The risk self-assessment methodology comprises three key approaches for Business Units and Staff Groups to identify and/or capture Operational Risk exposures and events: Entity Risk Self Assessment ("ERSA"), Process Risk Self Assessment ("PRSA") and the Operational Risk Event Capture process. Each of these tools provides a unique and complementary approach to identifying and capturing Operational Risk. Together, they comprise a holistic, comprehensive program for risk identification at the Bank, Business Unit/Staff Group and process levels.

Key Risk Indicators ("KRIs") are tools used to provide an assessment of, and/or insight into changes in the risk and control environment that may lead to losses or exposures within the business units and staff groups. KRIs are objective and quantifiable, and provide a reasonable indication or an early warning of elevated levels of operational risk. Business units and staff groups are responsible for monitoring and reporting KRIs, with support from the Operational Risk Officer's team.

The Bank measures its operational risk using the Basic Indicator Approach. The Bank's operational risk is calculated as disclosed previously in the Capital Structure and Adequacy section of this document.

7 Remuneration

The Bank adheres to the remuneration policies of its parent company, AXP, with governance and oversight of the remuneration policies and the compensation structure for senior management provided by the Human Resources Committee (HRC) of the Board and the Bank's VP, Human Resources. The HRC meets on a quarterly basis and once a year discusses and aligns on remuneration of senior management of the Bank.

The key features and objectives of the Bank's remuneration program include both business and leadership objectives and goals. Such objectives and goals include but are not limited to the revenue, earnings per share, employee engagement and diversity and specific role objectives. The HRC reviews the Bank's remuneration program on an annual basis. Based on the most recent annual review, the Bank has adopted "Covered Persons Policy". The policy supports Bank's compliance with the Financial Stability Board (FSB) guideline, which is intended to reduce incentives towards excessive risk taking that may arise from the structure of compensation systems. Key risks taken into consideration include, but are not limited to, both financial and reputational/brand risk. Measures to assess risk include internal Operational Risk events, dollar value thresholds and levels of media coverage and volume of cardmember impact. Annual variable compensation is the primary factor that can be affected post a qualified risk assessment.

The remuneration of risk and compliance employees is not tied to the business results of the unique lines of business they directly support, but rather to the overall success of the Bank's business and their respective risk and compliance related performance metrics. The funding for the compensation pools is separate from the business.

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Remuneration is assessed and assigned during the annual performance review process. Objectives of this process are business, financial and leadership in nature. Performance metrics include, but are not limited to, financial objectives, operating expense management and leadership development. Both financial and leadership goals are measured across the entity and for the individual in assessing annual performance and remuneration. The remuneration available to the Bank's employees is tied to annual performance metrics and is assessed on an annual basis based on financial results of the Bank, the Bank's parent company, and individual Lines of Business. Allocations are then completed based on the successful accomplishment of those performance objectives to include both financial and leadership objectives.

The compensation structure of the Bank includes salaries, short-term employee benefits, periodic performance based incentive plans and long-term incentive plans such as share-based payments and a deferred profit sharing plan. All full-time employees of the bank are eligible to receive a variable component of compensation contingent upon their performance. Employee bonuses are not guaranteed. Share-based payments granted to the Bank's employees are awards offered by the Bank's ultimate parent, AXP. These awards may be in the form of stock options, letters of intent (LOIs) and portfolio grants (PGs), which take into account longer-term performance through the awards vesting schedule. In addition, a group retirement savings plan and health benefit plans are available to employees which satisfy certain eligibility criteria.

Key management compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly. The key management personnel of the Bank include the internal Board members of the Bank and Officers who are employees of the Bank that make critical decisions in relation to the strategic direction of the Bank.

The compensation paid or payable to key management for employee services as at December 31 is shown below:

	2013
Salaries and other short-term employee benefits	4,573
Post-employment benefits	260
Share-based payments	1,951
	<u>6,784</u>

The fixed and variable compensation paid or payable to key management for employee services as at December 31 is shown below:

	2013
Fixed	2,645
Variable	4,139
	<u>6,784</u>