



Amex Bank of Canada

Basel Pillar III Disclosures
September 30, 2023

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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 ultimate parent company of the Bank, American Express Company (AXP) is licensed under the Bank Holding Company Act of the United States of America and is subject to supervision and examination by the Board of Governors of the Federal Reserve System (the Federal Reserve). The Bank is licensed to operate as a schedule II bank in Canada (foreign bank subsidiary).

The Bank principally engages in businesses comprising of Consumer Services, Commercial Services and Merchant and Network Services. The Bank's businesses function together to form an end-to-end integrated payments platform. The Bank provides credit cards, charge cards and non-card lending products to consumers, small businesses, mid-sized companies, and large corporations in Canada. Additionally, the Bank provides merchant and network services to permit all cards issued by the Bank, other American Express subsidiaries, as well as cards issued by third-party banks on the American Express network to be used to purchase goods and services at local and global merchants that accept cards bearing the American Express logo.

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), funding & 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.

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Risk management structure

The details of the assignment of risk management responsibilities to the committees and key officers are outlined 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
- Enterprise Risk Management Committee (ERMC)
- Operational Risk Management Committee (ORMC)
- Credit Risk Management Committee (CRMC)
- 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, monitored, and reported 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 ERMC and RRC on an annual basis.

Risk measurement

The Bank seeks to constrain its risk-taking exposures as well as losses due to stress conditions within its Risk Capacity. The Risk Appetite Framework (RAF) is designed to link the Bank's risk management approach with both capital and business planning, using various stress scenarios including the Bank's performance under the Internal Capital Adequacy Assessment Process (ICAAP) severe macroeconomic scenario. To accomplish this, the RAF quantifies risks leveraging the common quantitative loss metric Loss Given Stress (LGS), which represents the expected cumulative amount of losses under stressed conditions. In addition to limits and escalations based on LGS, the RAF also contains limits and escalations based on metrics tailored for each risk type. These additional limits provide complementary guardrails around risk taking and risk controls, whereas the additional escalations provide early warnings on changes in risk profile.

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. The Bank follows the Basel III Leverage Ratio Framework for measurement and reporting of the Bank's Leverage Ratio. The Bank is considered a Category II institution under the Small and Medium-Sized Deposit-Taking Institutions (SMSBs) Capital and Liquidity Requirements Guideline.

Consistent with OSFI requirements pertaining to simpler approaches under Basel III reforms, the Bank has adopted the Standardized Approach to measuring credit risk and the Simplified Standardized Approach to measuring operational risk. Market risk for the Bank is immaterial and the Bank is not currently engaged in business transactions that require calculation and reporting of Market risk. The Bank is not currently required to maintain a Counter-Cyclical Capital Buffer as the same has not been activated by OSFI.

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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.

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 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 September 30, 2023, under the Basel III framework, the regulatory capital of the Bank consisted of Tier 1 capital (common shares, retained earnings, other comprehensive income and contributed surplus), and Tier 2 capital (collective allowance eligible for inclusion as Tier 2 capital subject to maximum threshold defined in CAR guideline).

The following table presents the Bank's regulatory capital, capital ratios and leverage ratio. As at September 30, 2023, the Bank was in compliance with the capital and leverage ratio guidelines issued by OSFI under Basel III, as well as the Bank's internal requirements.

Basel III Framework

As at September 30:	2023
Regulatory capital	
Common shares	526,000
Contributed surplus	9,155
Other Comprehensive Income	(5,160)
Retained earnings	432,349
Common Equity Tier 1 capital before regulatory adjustments	962,344
Regulatory adjustments to Common Equity Tier 1 capital	(6,838)
Common Equity Tier 1 capital	955,506
Tier 1 capital	955,506
Collective allowances as Tier 2 capital	50,819
Total capital	1,006,325

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Risk weighted assets	
Credit risk	4,136,137
Operational risk	2,096,200
Total risk-adjusted assets	<u>6,232,337</u>
Capital ratios	
CET1 ratio	15.33%
Tier 1 ratio	15.33%
Total capital ratio	16.15%
Leverage ratio	11.98%

As part of the Basel III Reforms, the most relevant change for the Bank is the need to hold additional capital for the undrawn commitments on the Bank's credit and charge card receivables. As a result of the revised capital requirements, the Bank has increased capital in 2023. The Bank is currently above all minimum capital adequacy requirements under Basel III reforms.

3 Credit risk management

One of the most significant risks to the Bank is credit risk. Credit risk is the risk of loss due to non-payment of an amount contractually owed to the Bank by a customer, credit counterparty, other business organizations or due to a change in the credit quality of a security held in the Bank's investment or liquidity portfolios 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 disciplined in its credit risk assessment so that it can better understand, underwrite, select, and manage its exposures within its risk appetite, and limit expected losses to profitable levels.

Credit Risk Committee structure

The RRC, the President & Chief Executive Officer (CEO), the VP & Chief Risk Officer (CRO), the VP & Chief Credit Officer (CCO) and the ERMC have responsibility for credit risk management at the Bank. To support the RRC, CEO, the CRO, the CCO, 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 CRMC meets at least ten times per year to review, portfolio quality and any 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 thresholds;
- Specific LGS and single obligor economic capital exposure limits have been established for the reporting of significant credit exposures to the RRC;
- Management of the Bank's overall loan portfolio to ensure broad diversification of credit risk and to limit concentrations of correlated risks (e.g., industry risks);
- Continuous review of credit and credit management processes by an independent audit group;
- Robust decision making, based on the use of decision models, business rules, and credit bureau data;
- Monthly monitoring of delinquency, charge-off & recovery reports, so as to improve lending and account management decisions and to ensure an appropriate level of allowance for credit losses is provided for on the Bank's financial statements;

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- Predetermined technical skill requirements for all employees whose responsibilities include the evaluation of credit risk, and delegation of decision-making authority consistent with demonstrated ability.

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 default, economic harm, or non-payment of an amount contractually owed to the Bank by institutional obligors or financial counterparties; or loss because of refunds to customers caused by a merchant liquidating or ceasing operations. 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 collectively led by the CCO. To preserve independence, credit officers have reporting relationships within the credit risk management organization and not to the business units.

The Bank recognizes that there is inherent credit risk associated with the Bank's assets which are presented as at September 30 in the following table:

	2023
Deposit with regulated financial institutions	302,402
Short term marketable and investment securities	355,425
Customer receivables and loans	2,010,421
Other receivables	265,451
	2,933,699

Capital measurement of credit risk

In accordance with the Standardized Approach to measuring credit risk outlined in OSFI's CAR guideline, the Bank may use an external credit assessment institution (ECAI) for claims on banks or deposit-taking institutions. The risk weight applied to a claim on the bank is dependent on the bank's credit rating.

The following table includes the Bank's net credit risk exposures, in each risk bucket as at September 30:

	2023	
Risk buckets	Net Exposure	Risk Weighted Assets
250%	96,130	240,325
150%	26,421	39,631
100%	1,384,575	1,384,575
85%	521,407	443,196
75%	1,948,105	1,461,079
20%	305,234	61,047
15%	3,375,230	506,285
0%	355,425	-
	8,012,527	4,136,138

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 customer receivables age past due and towards certain receivables from affiliate entities. The collateral is in the form of guarantees (letters of credit) and deposits from affiliates, however these collateral instruments are not used to mitigate exposures for regulatory capital purposes.

Individual credit risk management

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. The CCO is responsible for the implementation of this Policy with oversight provided by the CRO and the ERM. 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 models.

Credit underwriting decisions are made based on advanced evaluation of product economics and customer behavior predictions. The Bank has developed unique decision logic for each customer interaction and each decision benefits from refined 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 management

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 CCO is responsible for the implementation of this Policy with oversight provided by the CRO and the ERM. This policy is further supported by a highly organized structure of subordinate procedures covering all facets of institutional credit extension across the credit lifecycle, new account approvals, limit management, authorizations, collections, and fraud prevention.

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.

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.

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

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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 CRMC and ERM monthly, and to RRC of the Board quarterly.

The following table presents the Bank's assets which are subject to credit risk by industry and counterparty risk at September 30:

	2023
Institutions ¹ , including customer receivables and loans	1,459,453
Individuals, including customer receivables and loans	1,118,821
Government and Agencies	355,425
	<u>2,933,699</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 September 30, 2023:

Within Canada by region:	Western	Central	Other within and outside of Canada	Total
Deposits with regulated financial institutions	-	302,402	-	302,402
Short term marketable securities	-	355,425	-	355,425
Customer /other receivables and loans	431,077	1,546,674	298,121	2,275,872
	431,077	2,204,501	298,121	2,933,699

Credit Impairment

A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1", and their ECL is measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit impaired. If the financial instrument is credit-impaired, the financial instrument is moved to "Stage 3". Financial instruments in Stages 2 or 3 will have their ECL measured based on expected lifetime credit losses.

Customer 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. Customer loans and receivables are considered past due when the customer has failed to make a payment when contractually due. Customer loans and receivables where the customer has filed for bankruptcy or where the customer has become deceased are written off upon receipt by the Bank of notification. Customer loans and receivables, other than bankrupt and deceased accounts, are written off if uncollected no later than 180 days past due.

As at September 30, 2023, the Bank had an allowance for expected credit losses of \$3,584 which represents the allowance for customer loans and receivables from institutions. In addition, Bank had an allowance for expected credit losses of \$40,659 which represents allowance for undrawn commitments on customer loans.

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Expected credit losses on drawn portion of customer loans and receivables from individuals are considered in the measurement of these assets at fair value.

The following table includes customer receivables and loans which are past due as at September 30, 2023 by counterparty type:

	<u>1 - 90 days past due</u>
Individual customer receivables and loans past due and not impaired	24,581
Institutional customer loans and receivables past due and not impaired	210,549

Included in the table below are the changes in the allowance for impairment for the 3 months September 30, 2023:

	<u>Institutional</u>
Balance - beginning of the quarter	4,166
Net write-offs	(2,536)
Net provision for credit losses	1,953
Balance - end of quarter	<u>3,583</u>

As at September 30, 2023, the Bank had impaired loans and receivables from institutions of \$1,254.

Modified Loans and Receivables

The Bank offers a Financial Relief Program (FRP) to customers who are experiencing financial difficulty. Through this initiative the Bank may modify its customers loans and receivables with the intention to minimize losses and improve collectability, while providing customers with temporary or permanent financial relief. Such modifications may include but are not limited to temporary interest rate reductions, a fixed payment plan, and suspending fees. The outstanding loans and receivables balance enrolled in FRP as of September 30, 2023 were not material to the Bank's financials.

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 CRMC and ERMC on a regular basis.

The Bank may use 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. As at September 30, 2023, there were no foreign exchange forward contracts outstanding.

4 Asset liability management

Asset and Liability (ALM) risk is the risk to earnings or value resulting from unfavorable 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 ERMC 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 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.

The Bank uses a mix of fixed and floating funding to manage its exposure to movements in interest rates within Board approved limits.

The following sources are available to the Bank to fund its loans and receivables from customers:

- Short term credit arrangements with a related party;
- Paid-in capital and equity;
- Deposits from affiliates;
- Sale of receivables to an affiliated entity

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, ERMC and RRC.

Interest rate sensitivity

The Bank establishes and maintains processes, utilizing systems where appropriate, to model and measure Interest Rate Risk exposures. Banking book on- and off-balance sheet positions, market data, and behavioral assumptions will be utilized to model the Bank's Interest Rate Risk exposures under varying scenarios.

Earnings-at-Risk:

Earnings-at-Risk (EAR) is defined as the negative impact to the Bank's pre-tax net interest income, as a result of changes to market interest rates. This sensitivity measure calculates the impact over a rolling 12-month horizon.

Economic Value of Equity:

Economic Value of Equity exposure (EVE) is defined as the negative impact to the Bank's economic value, as a result of changes to market interest rates. The Bank's economic value is calculated by aggregating the net present value of cash flows from assets, liabilities and off-balance sheet positions.

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As a necessary part of the modelling process, the Bank applies appropriate behavioral and/or market assumptions to more accurately reflect the interest rate sensitivity of the Bank's economic value of equity. The assumptions are reviewed and approved by the ALCO and ERMC at least annually or upon material change.

As at September 30, 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:

	2023	
	Shift up	Shift down
Impact on income before income taxes	(3,260)	3,292
Impact on equity	(4,958)	5,050

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 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's liquidity risk objective is to maintain sufficient liquidity to withstand a range of stress events including periods when regular sources of funding become impaired and to meet all regulatory requirements. The Bank incurs and accepts liquidity risk arising in the normal course of offering its products and services.

The liquidity risk that the Bank is exposed to can arise from a variety of sources. As such, the liquidity risk management strategy of the Bank will include a variety of measurements, assessments and guidelines, including but is not limited to:

- The maintenance of a diversified set of on and off-balance sheet funding sources that utilizes a prudent amount of short-term funding liabilities;
- The maintenance of a cushion of high quality, unencumbered liquid assets "Liquidity Buffer" to be held against identified funding requirements under internal liquidity stress scenarios for a liquidity risk survival horizon of 30 days and for regulatory purposes;
- The projection of cash inflows and outflows from a variety of sources under various stress scenarios;
- The capacity to conduct a range of hypothetical analyses of changes to funding requirements under stress scenarios;
- A framework for the ongoing identification, measurement, management and monitoring of liquidity requirements;
- Incorporating the trade-offs between liquidity risk and the Bank's profitability into the Internal Capital Adequacy Assessment Process (ICAAP).

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

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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 ERMC and RRC and provides for the ongoing identification, assessment, measurement, monitoring and reporting of liquidity requirements which are approved by the ALCO, ERMC 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 regulatory requirements for liquidity have been established by OSFI based on the Basel Committee on Banking Supervision's (BCBS) Basel III liquidity framework.

The regulatory requirements for liquidity established by OSFI include the Liquidity Coverage Ratio (LCR), Net Cumulative Cash Flow (NCCF) and other liquidity risk monitoring tools.

The Bank maintains a cushion of unencumbered, liquid assets to meet funding requirements under the internally prescribed liquidity stress events. The stock of liquid assets includes but is not limited to cash and marketable securities that are traded in active secondary markets or are eligible at central banks for open market operations and marketability. The Bank also maintains a stock of high-quality unencumbered liquid assets (HQLA) for LCR purposes. Sufficient unencumbered HQLA is required to cover the total net cash outflows over a 30-day period under a prescribed regulatory stress scenario.

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 risk of loss to earnings or capital from inadequate or failed processes, people or information systems; or Bank impacts from the external environment; or Bank impacts from relationships with third parties or affiliates; or legal liability from lawsuits; or fines, sanctions, or customer remediation from operational failures causing Compliance 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. The Bank's ERM Policy defines the Bank's risk appetite for operational risk and establishes and maintains risk limits and escalation thresholds by operational risk type. Adherence to the established limits and tolerances is overseen by the ERMC and the RRC.

Effective operational risk management and governance depends upon having clearly defined and understood roles and assigned responsibilities. Accordingly, the Bank appoints a Chief Operational Risk Officer (CORO), who has overall responsibility for the effective management of operational risk across the Bank on a day-to-day basis, and in compliance with applicable laws and regulations.

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 ERMC.

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The Bank has established an ORMC to provide governance for the operational risk framework including related policies. The ORMC is chaired by the CORO 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's 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") Operational Risk Management Guideline E-21.

The Bank also has a reporting process that provides business unit leaders with operational risk information on a periodic and frequent 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 two key approaches for Business Units and Staff Groups to identify and/or capture Operational Risk exposures and events: 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.

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. Objective and quantifiable KRIs 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 CORO's team.

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

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7 Key metrics

		Key metrics as at September 30, 2023	
		a	b
		Sep'23	Jun'23
Available capital (amounts)			
1	Common Equity Tier 1 (CET1)	955,506	855,817
2	Tier 1	955,506	855,817
3	Total capital	1,006,325	904,327
Risk-weighted assets (amounts)			
4	Total risk-weighted assets (RWA)	6,232,337	5,931,596
Risk-based capital ratios as a percentage of RWA			
5	CET1 ratio (%)	15.33%	14.43%
6	Tier 1 ratio (%)	15.33%	14.43%
7	Total capital ratio (%)	16.15%	15.25%
Additional CET1 buffer requirements as a percentage of RWA			
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0.00%	0.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	7.33%	6.43%
Basel III Leverage ratio			
13	Total Basel III leverage ratio exposure measure	7,977,302	7,936,546
14	Basel III leverage ratio (row 2 / row 13)	11.98%	10.78%

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8 Composition of regulatory capital for SMSBs

Composition of capital as at September 30, 2023		
Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) and related stock surplus (and other contributed surplus)	535,155
2	Retained earnings	432,349
3	Accumulated other comprehensive income (and other reserves)	(5,160)
4	<i>Directly issued capital subject to phase out from CET1 (only applicable to Federal Credit Unions)</i>	N/A
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	N/A
6	Common Equity Tier 1 capital before regulatory adjustments	962,344
Common Equity Tier 1 capital: regulatory adjustments		
28	Total regulatory adjustments to Common Equity Tier 1	(6,838)
29	Common Equity Tier 1 capital (CET1)	955,506
29a	Common Equity Tier 1 Capital (CET1) with transitional arrangements for ECL provisioning not applied	955,506
Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	N/A
31	of which: classified as equity under applicable accounting standards	N/A
32	of which: classified as liabilities under applicable accounting standards	N/A
33	<i>Directly issued capital instruments subject to phase out from Additional Tier 1 (applicable only to Federal Credit Unions)</i>	N/A
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	N/A
35	<i>of which: instruments issued by subsidiaries subject to phase out (applicable only to Federal Credit Unions)</i>	N/A
36	Additional Tier 1 capital before regulatory adjustments	-
Additional Tier 1 capital: regulatory adjustments		
43	Total regulatory adjustments to Additional Tier 1 capital	-
44	Additional Tier 1 capital (AT1)	-
45	Tier 1 capital (T1 = CET1 + AT1)	955,506
Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	N/A
47	<i>Directly issued capital instruments subject to phase out from Tier 2 (applicable only to Federal Credit Unions)</i>	N/A
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	N/A
49	<i>of which: instruments issued by subsidiaries subject to phase out (applicable only to Federal Credit Unions)</i>	N/A
50	Collective allowances	50,819
51	Tier 2 capital before regulatory adjustments	50,819
Tier 2 capital: regulatory adjustments		
57	Total regulatory adjustments to Tier 2 capital	N/A

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58	Tier 2 capital (T2)	50,819
59	Total capital (TC = T1 + T2)	1,006,325
60	Total risk-weighted assets	6,232,337
60a	Credit Valuation Adjustment (CVA) Risk-weighted Assets (RWA)	N/A
Capital ratios		
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	15.33%
62	Tier 1 (as percentage of risk-weighted assets)	15.33%
63	Total capital (as percentage of risk-weighted assets)	16.15%
OSFI target		
69	Common Equity Tier 1 capital target ratio	7.00%
70	Tier 1 capital target ratio	8.50%
71	Total capital target ratio	10.50%
Capital instruments subject to phase-out arrangements (For Federal Credit Unions only)		
80	<i>Current cap on CET1 instruments subject to phase out arrangements</i>	N/A
81	<i>Amounts excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	N/A
82	<i>Current cap on AT1 instruments subject to phase out arrangements</i>	N/A
83	<i>Amounts excluded from AT1 due to cap (excess over cap after redemptions and maturities)</i>	N/A
84	<i>Current cap on T2 instruments subject to phase out arrangements</i>	N/A
85	<i>Amounts excluded from T2 due to cap (excess over cap after redemptions and maturities)</i>	N/A

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9 Leverage ratio common disclosure template

Leverage Ratio as at September 30, 2023			
		a	b
		Sep'23	Jun'23
On-balance sheet exposures			
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	3,322,258	3,201,290
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework (IFRS)	N/A	N/A
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	N/A	N/A
4	(Asset amounts deducted in determining Tier 1 capital)	(6,838)	(13,054)
5	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 4)	3,315,420	3,188,236
Derivative exposures			
6	Replacement cost associated with all derivative transactions	N/A	N/A
7	Add-on amounts for potential future exposure associated with all derivative transactions	N/A	N/A
8	(Exempted central counterparty-leg of client cleared trade exposures)	N/A	N/A
9	Adjusted effective notional amount of written credit derivatives	N/A	N/A
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	N/A	N/A
11	Total derivative exposures (sum of lines 6 to 10)	N/A	N/A
Securities financing transaction exposures			
12	Gross SFT assets recognized for accounting purposes (with no recognition of netting), after adjusting for sale accounting transactions	N/A	N/A
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	N/A	N/A
14	Counterparty credit risk (CCR) exposure for SFTs	N/A	N/A
15	Agent transaction exposures	N/A	N/A
16	Total securities financing transaction exposures (sum of lines 12 to 15)	N/A	N/A
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	18,647,528	18,993,240
18	(Adjustments for conversion to credit equivalent amounts)	(13,985,646)	(14,244,930)
19	Off-balance sheet items (sum of lines 17 and 18)	4,661,882	4,748,310
Capital and Total Exposures			
20	Tier 1 capital	955,506	855,817
21	Total Exposures (sum of lines 5, 11, 16 and 19)	7,977,302	7,936,546
Leverage Ratios			
22	Basel III leverage ratio	11.98%	10.78%