



EXCHANGE BANK™
OF CANADA

BASEL III PILLAR 3 DISCLOSURES REPORT

For the Quarter Ended January 31, 2024



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Nature of Operations

Established in 2016, EBC is a Schedule 1 Bank and a federally regulated financial institution, wholly owned by Currency Exchange International Corporation, a publicly listed company on the Toronto Stock Exchange (TSX: CXI). The Bank provides a wide range of foreign currency exchange products and international payment services to financial institutions and corporations, including banknote foreign currency exchange, foreign currency cheque clearing, foreign currency bank drafts, electronic funds transfers, and international wire transfers. EBC does not offer deposit accounts nor any lending products. The Bank is domiciled in Canada, with its registered office located at 390 Bay Street, Suite 700, Toronto, Ontario, M5H 2Y2, Canada. The Bank has a fiscal year-end of October 31st.

The Bank generates the following sources of revenue from domestic corporations and financial institutions as well as select foreign financial institutions:

1. Commissions revenue comprise of the difference (spread) between the cost and selling price of foreign currency products, including banknotes, digital currency exchange, cheque collections and draft issuances (foreign currency margin), and the commissions paid on the sale and purchase of currencies. The amount of this spread is based on competitive conditions and the convenience and value-added services offered.
2. Fees collected for wire transfers, electronic fund transmissions, drafts, cheque-clearing transactions, shipping, and other ancillary charges.



Capital Framework

The Basel Committee on Banking Supervision (“BCBS”) is an international forum for regular cooperation on banking supervisory matters. Basel III is a global regulatory capital and liquidity framework developed by the BCBS and is composed of the following three pillars:

1. Pillar 1 addresses capital and liquidity adequacy and provides minimum requirements;
2. Pillar 2 outlines supervisory monitoring and review standards; and
3. Pillar 3 promotes market discipline through prescribed public disclosures.

In Canada, the Office of the Superintendent of Financial Institutions (“OSFI”) implements the Basel III framework through the (i) Capital Adequacy Requirements (“CAR”); (ii) Leverage Requirements (“LR”); (iii) Liquidity Adequacy Requirements (“LAR”); (iv) Small and Medium-Sized Deposit-Taking Institution (“SMSB”) Capital and Liquidity Requirements; and (v) Pillar 3 Disclosure Guideline for SMSBs Capital and Liquidity Requirements.

The Bank is a non-deposit taking and non-lending Schedule 1 Bank, regulated by OSFI. For capital adequacy and liquidity purposes, the Bank is classified as a Category 2 SMSB. Based on CAR, LR, LAR, and the SMSBs Capital and Liquidity Requirements, the Bank applies the standardized approach to credit risk, Simplified Standardized Approach (“SSA”) to operational risk, and the Standardized Approach to Counterparty Credit Risk (“SACCR”), to calculate Risk Weighted Assets (“RWA”). The Pillar 3 Disclosure Guideline for SMSBs Capital and Liquidity Requirements require the Bank to publicly disclose relevant disclosures to ensure stakeholders have access to key risk information that would enable them to gain a fundamental understanding and knowledge of the Bank’s activities.

Unless otherwise noted, all amounts are in Canadian Dollar (“CAD”).

Additional information is available here:

1. OSFI’s financial Data website: <https://www.osfi-bsif.gc.ca/Eng/wt-ow/Pages/fd-df.aspx>



Key metrics

(Amounts in thousands of Canadian Dollars)		Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Available Capital (amounts)						
1	Common Equity Tier 1 (CET1)	9,097	10,600	11,996	12,840	13,109
2	Tier 1 Capital	9,097	10,600	11,996	12,840	13,109
3	Total Capital	14,097	15,600	16,996	17,840	18,109
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	57,285	51,220	49,286	46,465	47,501
4a	Total risk-weighted assets (pre-floor)	-	-	-	-	-
Risk-based capital ratios as a percentage of RWA						
5	CET1 ratio (%)	15.9%	20.7%	24.3%	27.6%	27.6%
5a	CET1 ratio (%) (pre-floor ratio)	-	-	-	-	--
6	Tier 1 ratio (%)	15.9%	20.7%	24.3%	27.6%	27.6%
6a	Tier 1 ratio (%) (pre-floor ratio)	-	-	--	-	-
7	Total capital ratio (%)	24.6%	30.5%	34.5%	38.4%	38.1%
7a	Total capital ratio (%) (pre-floor ratio)	-	-	--	-	-
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	-	-	--	-	-
9	Countercyclical buffer requirement (%)	-	-	--	-	-
10	Bank G-SIB and/or D-SIB additional requirements (%) [Not applicable for SMSBs]	-	-	--	-	-
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	-	-	--	-	-
12	CET1 available after meeting the bank's minimum capital requirements (%)	5.4%	4.7%	8.3%	11.6%	11.6%
Basel III Leverage ratio						
13	Total Basel III leverage ratio exposure measure	78,796	72,974	79,478	87,181	80,096
14	Basel III leverage ratio (row 2 / row 13)	10.3%	14.5%	15.1%	14.7%	16.4%



Composition of Capital

	(Amounts in thousands of Canadian Dollars)	Amounts
	Common Equity Tier 1 capital: instruments and reserves	
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	16,200
2	Retained earnings	(1,890)
3	Accumulated other comprehensive income (and other reserves)	
4	<i>Directly issued capital subject to phase out from CET1 (only applicable to Federal Credit Unions)</i>	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
6	Common Equity Tier 1 capital before regulatory adjustments	14,310
	Common Equity Tier 1 capital: regulatory adjustments	
28	Total regulatory adjustments to Common Equity Tier 1	5213
29	Common Equity Tier 1 capital (CET1)	9,097
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	-
33	<i>Directly issued capital instruments subject to phase out from Additional Tier 1 (applicable only to Federal Credit Unions)</i>	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35	of which: instruments issued by subsidiaries subject to phase out (applicable only to Federal Credit Unions)	-
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)	9,097
	Tier 2 capital: instruments and provisions	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	5,000
47	<i>Directly issued capital instruments subject to phase out from Tier 2 (applicable only to Federal Credit Unions)</i>	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
49	of which: instruments issued by subsidiaries subject to phase out (applicable only to Federal Credit Unions)	-
50	Collective allowances	-
51	Tier 2 capital before regulatory adjustments	5,000
	Tier 2 capital: regulatory adjustments	
57	Total regulatory adjustments to Tier 2 capital	
58	Tier 2 capital (T2)	5,000
59	Total capital (TC = T1 + T2)	14,097
60	Total risk-weighted assets	57,285

Capital ratios



61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	15.9%
62	Tier 1 (as a percentage of risk-weighted assets)	15.9%
63	Total capital (as a percentage of risk-weighted assets)	24.6%

OSFI target

69	Common Equity Tier 1 target ratio	7.0%
70	Tier 1 capital target ratio	8.5%
71	Total capital target ratio	10.5%

Capital instruments subject to phase-out arrangements (For Federal Credit Unions only)

80	Current cap on CET1 instruments subject to phase-out arrangements	-
81	Amount excluded from CET1 capital due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase-out arrangements	-
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on Tier 2 instruments subject to phase-out arrangements	-
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	-

The 2022 refresh of the strategic plan identified specific investments in infrastructure and organizational design changes to enable a more scalable and profitable enterprise. Those included establishing a Managing Director for the Bank and technology and infrastructure investments, which over the years, drove the increases in operational costs.

Those operational costs have remained at planned levels; however, revenues have missed budgeted targets in both the payments and banknotes segments. Given these factors, EBC has experienced capital erosion which has impacted its Tier 1 Capital Ratio, Total Capital Ratio, and Leverage Ratio. Since Q3 2023, these ratios have declined from 27.6% to 15.9%, from 38.4% to 24.6%, and from 14.5% to 10.3%, respectively. The capital erosion is largely driven by a decline in revenues and a disproportional increase in operating expenses.

Revenues declined by 25% from the same period last year primarily due to a decline in transacted volumes for US Dollars with international clients. Accordingly, revenues in the Banknotes product line declined by 19%, while the Payments product line declined by 33%, compared to the same period in the prior year. The decline in Payments was impacted by reduced transactional volumes for certain key clients in addition to unfavorable foreign exchange movements that impacted trends in transactional volumes. The Bank's operating expenses increased 12% compared to the same period last year. This 12% increase is higher than the 7% growth in revenues. Actions have been implemented to address cost reduction with a focus cost controls and on revenue enhancing opportunities

Risk Management Objectives, Structure and Policies

The Bank's activities expose it to a variety of financial and non-financial risks such as, but not limited to, credit risk, foreign currency risk, interest rate risk, and liquidity risk. The Bank's risk management policies are designed to minimize the potential adverse effects on the Bank's financial performance. Risk management oversight is carried out by the Chief Risk Officer ("CRO") under policies approved by Senior Management and the Board of Directors. Information regarding the Bank's exposure to material risks and the Bank's objectives, policies, and processes for measuring and managing these risks is outlined below.

The Bank's activities expose it to the following risks:

- Compliance risk
- Concentration risk
- Counterparty Credit risk



- Credit risk
- Cybersecurity Risk
- Foreign currency risk
- Interest rate risk
- Liquidity risk
- Operational risk, including fraud risk
- Reputation risk

Compliance Risk, including Reputation Risk

The risk of non-compliance with regulatory requirements of OSFI, Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), or non-compliance with Anti-Money Laundering (AML) regulations. Non-compliance to FINTRAC regulations and requirements, including AML regulations, could result in an Administrative Monetary Penalty (AMP) and/or fines levied and the loss of banking partners, strategic partners due to a severe negative impact to reputation and non-adherence to contractual obligations with regulated institutions such as FIs, including credit unions.

Concentration Risk

Concentration risk for EBC is the risk of concentrated dependency or non-performance by a relationship bank, third-party service providers, vendors, or clients. Should EBC lose any of these relationships, it could cause a material decline in revenue and potentially disrupt the business model. The following are the concentration risk categories that EBC defines and monitors on a periodic basis:

1. Foreign Currency Payments: EBC has several providers offering liquidity and payment services for foreign currency transactions and is not reliant on a single provider.
2. Banknote Sourcing: EBC has some redundancy for the procuring and offloading of foreign banknotes.
3. Concentration Risk related to vendors: The risk of high exposure to a few third-party service providers or vendors.
4. Concentration Risk related to customers: The risk of high exposure to a few customers.
5. Concentration Risk related to relationship banking partners: EBC has a reliance on certain financial institutions for its primary banking services. EBC is in progressive discussions with other top tier Canadian banks to mitigate this concentration risk.

Counterparty Credit Risk

Counterparty Credit Risk ("CCR") is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows, resulting in an economic loss to EBC. Unlike EBC's exposure to credit risk, where the exposure to credit risk is unilateral and only EBC faces the risk of loss, CCR creates a bilateral risk of loss: the market value of the transaction can be positive or negative to either EBC or the counterparty to the transaction. The market value is uncertain and can vary over time with the movement of underlying market factors.

CCR lies primarily in the Payments line of business related to the forward contracts. Should a client fail to settle a contract, then EBC is exposed to CCR on settlement of the cover deal. This risk is managed by requiring clients to provide margin on forward deals. The majority of clients are however granted forward margin waivers, which are managed similar to settlement credit adjudication, though clients do not automatically qualify for both. The Credit Risk team monitors the market positions of all contracts through daily management reports. EBC has had several instances where margin has been demanded and clients have settled. Clients that are accustomed to using their commercial bank for forward contracts often have lines of credit that the institution can carve out margin from. That means that their bank is assuming the credit risk for forward contracts as part of the overall credit exposure to the client. Since EBC is a non-lending institution, it has no other means by which margin can be covered, which ultimately means that the client must fund margin calls from its own cash reserves or credit facilities. EBC has a few clients to which it is exposed beyond its risk appetite and in underwriting the Credit Risk team ensures that there is predictability in earnings as demonstrated through historical performance and tangible net worth that is appropriate to support the exposure. In certain cases, guarantees from shareholders are obtained as well. The residual risk of a client failing to settle a contract is low, as those contracts were put in place to hedge expected future cash flows at FX rates that the client planned for. Thus, a notional gain or loss on a forward contract is unlikely to have an impact on the client's business. The residual risk is largely attributable to



unplanned events that create a situation whereby a client is unable to settle a contract. In such an event, EBC will exercise its legal rights in making a claim against the client for any losses incurred as a result. CCR is also applicable to the Banknotes line of business in every banknote transaction with EBC's counterparties and clients.

EBC applies SACCR for Over the Counter ("OTC") foreign exchange derivatives, to compute the RWA calculation for counterparty credit risk.

<i>In thousands of Canadian dollars</i>		a	b	b	d	e	f
		Replacement cost	Potential future exposure	Effective EPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (for derivatives)	2,168	9,449	-	1.4	16,264	3,253
2	Internal Model Method (for derivatives and SFTs)	-	-	-	-	-	-
3	Simple Approach for credit risk mitigation (for SFTs)	-	-	-	-	-	-
4	Comprehensive Approach for credit risk mitigation (for SFTs)	-	-	-	-	-	-
5	Value-at-risk (VaR) for SFTs	-	-	-	-	-	-
6	Total	2,168	9,449	-	-	16,264	3,253

	a	b	c	d	e	f	g	h	i	j	k	l	m	n
Risk weight→	0%	10%	20%	30%	40%	50%	75%	80%	85%	100%	130%	150%	Others	Total credit exposure
Regulatory portfolio														
Sovereigns	-	-	-											
Public sector entities (PSEs)	-	-	-											
Multilateral development banks	-	-	-											
Banks	-	-	16,264											3,253
Corporates	-	-	-											
Of which: specialised lending	-	-	-											
Securities firms and other financial institutions treated as Corporate	-	-	-											
Regulatory retail portfolios	-	-	-											
Other assets	-	-	-											
Total	-	-	-											

Credit Risk

EBC is a non-deposit taking and non-lending institution, with very limited exposure to credit risk. Credit risk is the risk of financial loss associated with the counterparty's inability to fulfill its payment obligations. The Bank's credit risk is primarily attributable to accounts receivable and forward contracts from hedging counterparties. The Bank's credit risk from forward contracts from hedging counterparties is discussed above under "Counterparty Credit Risk".



The credit risk associated with accounts receivable is limited, as the Bank's receivables consist primarily of bulk currency trades with a settlement cycle of 24 to 48 hours. The majority of the Bank's receivables reside with banks, money service business customers, and other financial institutions. For the purpose of risk control, the customers are grouped as follows: domestic and international banks, money service businesses, and other customers. Credit limits are established for each customer, whereby the credit limit represents the maximum open amount without requiring payments in advance. The Credit Risk team, within the Risk Management function, analyzes reports from credit monitoring agencies, financial statements, and other pertinent information in determining a client's credit worthiness. Credit limits are based on a credit scoring model that considers the client's financial position, earnings history, and knowledge of the client's business. These credit limits are reviewed regularly by senior management. The maximum exposure to credit risk is represented by the carrying amount of each financial asset on the statements of financial position.

Cybersecurity Risk

This is the risk of the potential harm or damage that can occur due to vulnerabilities or threats to EBC's information technology systems, networks, and data. It encompasses the possibility of unauthorized access, disruption, alteration, or destruction of digital assets, including sensitive customer information, financial data, intellectual property, and operational systems.

Foreign Exchange Risk

EBC is exposed to foreign exchange risk in both the Payments and Banknotes lines of business.

Payments

To mitigate the FX risk created when clients enter into a FX transaction, EBC executes offsetting spot, forward, or swap contracts to ensure all client forward deals are covered according to policy limits established in the FX Risk Management Policy. These are referred to as "cover deals" internally. EBC covers all forward positions to mitigate exposure to fluctuations in the market. All trades are booked by the Treasury team to ensure that cover deals are entered into for each client deal on a timely basis. EBC's residual exposure from the Payments product is in the form of margin requirements with its liquidity providers. Refer to the "Liquidity Risk" section below.

For the Payments business, for certain cover deals, EBC is required to post margin to its counterparty banking partners to compensate for negative mark-to-market movement (variation margin). Therefore, there is a risk that a significant fluctuation in the value of the CAD would require EBC to post variation margin as collateral to cover the margin requirements with liquidity providers.

Banknotes

The volatility of the Bank's foreign currency holdings may increase as a result of the political and financial environment of the corresponding issuing country. Several currencies have a limited exchange rate exposure as they are pegged to the U.S. Dollar ("USD"). Management believes its exposure to foreign currency fluctuations is mitigated by the short-term nature and rapid turnover of its foreign currency inventory, as well as the use in certain instances of forward and option contracts to offset these fluctuations. Due to their nature, some minor and exotic foreign currencies cannot be hedged or are too cost prohibitive to hedge. Foreign currency exposure, in the form of exchange gains and losses arising from normal trading activities and business operations, are included in operating expenses for the period. In order to further mitigate the risks associated with holding these foreign currencies, the Bank assigns wider bid/ask spreads and maintains specific inventory targets to minimize the impact of exchange rate fluctuations. These targets are reviewed regularly and are increased or decreased to accommodate demand within acceptable risk tolerances.

The FX Policy governs the management of this risk relative to the risk appetite. EBC's business model is not built around hedging all its foreign currency exposure to market risk, but to limit and manage the exposure from certain banknote currencies to minimize hedging costs. EBC employs a combination of tools to hedge its exposures to banknote inventories:

1. For currencies that cannot be hedged economically, the inventory balances must remain within a limit that is based on EBC's Value-at-Risk ("VaR") model. Unhedgable currencies have a maximum limit tied to a VaR model that is tied to the risk appetite limit.
2. For hedged currencies with the largest exposures, the approach is to use a layering strategy whereby options are purchased for a baseline expected amount of select inventory exposures for a 90-day period.



3. Any remaining portions of the banknote currency inventory that do not have natural hedge offsets are hedged via monthly forward contracts executed within each reporting month.
4. Natural hedges are employed for all eligible foreign currency denominated exposures, the majority of which are USD denominated assets that are naturally offset by a related liability.

Interest Rate Risk

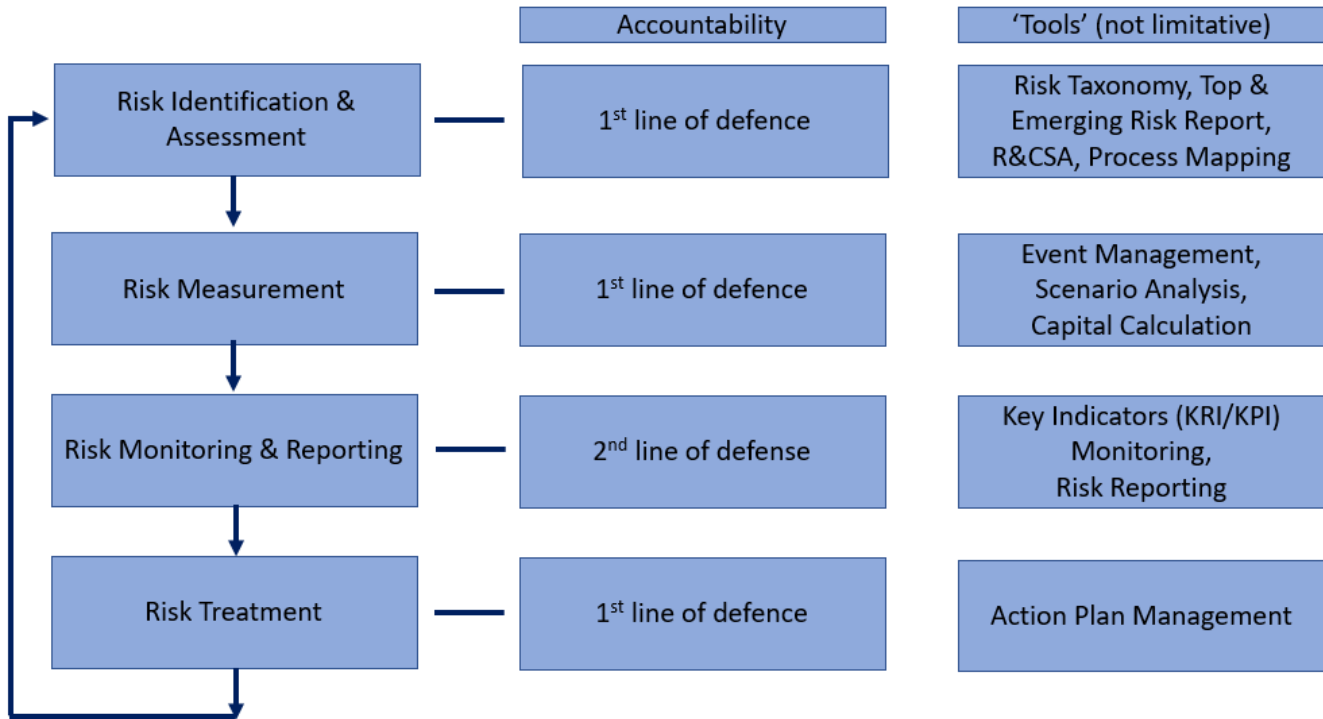
At January 31, 2024, the Bank had access to interest-bearing financial instruments in cash and lines of credit. A significant amount of the Bank's cash is held as foreign currency banknotes on consignment and in its own vaults. These amounts are not subject to interest rate risk. The Bank is subject to a small amount of cash flow interest rate risk from the borrowings on its lines of credit; however, as borrowings have remained within policy limits, this risk is low. Borrowings bear interest at variable rates and currently, the interest rate exposure is unhedged.

Liquidity Risk

Liquidity Risk is the risk of the Bank incurring losses resulting from the inability to meet payment obligations in a timely manner when they become due or from being unable to do so at a sustainable cost. To effectively manage liquidity risk, the Bank has implemented preventative risk monitoring measures, including setting an internal limit for the Liquidity Coverage Ratio ("LCR"), higher than the regulatory mandated 100%, which measures the proportion of unencumbered highly liquid assets to short-term net cash outflows. As required, the Treasurer reports any liquidity issues to the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), CRO, and the Audit Conduct and Risk Committee ("ACRC") in accordance with established policies and guidelines.

Operational Risk

Operational risk is the risk of loss resulting from ineffective or failed internal processes, people, systems, or external events that can disrupt the flow of business operations. Operational risk can be divided into risks from internal or external factors or events. EBC's Operational Risk Management Program is a continuous assessment of its risk and control environment as described in the following diagram:



Additionally, the 3rd line of defence, the internal audit function, provides an objective review and testing of the Bank’s operational risk management controls, processes, systems, and of the effectiveness of the first and second line of defence functions.

Risk Identification and Assessment

The purpose of Risk Identification and Assessment is to identify current and emerging operational risks and evaluate their impact on EBC’s operations. The following tools are used for this process:

1. Risk Taxonomy: Risk maintains a Risk Taxonomy for financial and non-financial risks relevant to the Bank.
2. Top Risk and Emerging Risk Report: Risk, in conjunction with Senior Management, identifies key risks for the Bank, on an ongoing basis.
3. Risk and Control Self-Assessment (R&CSA): The Business (or First Line of Defence) conducts risk and control self-assessments to identify all risks inherent in their operations and all Change Management initiatives (“CMI’s”)
4. Business Process Mapping: Departments maintain business operating procedures detailing activities performed by operations as narratives or/and flowcharts, which are useful for identifying operational risks and mitigating controls in business processes.

Risk Measurement

EBC uses the following risk measurement tools to document and or quantify its risks:

1. Event Management: All operational risk events (including gain events and near misses) and industry relevant external events are identified by managers and recorded in a centralized repository. The information gathered is systematically tracked and analyzed including cause, control failure, lessons learned, preventative action plans to objectively understand the Bank’s exposure to operational risk.
2. Capital Calculation: On a quarterly basis, the RWA calculation applies the SSA to calculate the RWA for operational risk.
3. Scenario Analysis: The Internal Capital Adequacy Assessment Process (“ICAAP”) includes assessment of various scenarios significantly impacting the Bank’s capital and its ability to successfully execute its strategy.



Risk Monitoring and Reporting

EBC monitors and reports on risks on a regular basis against the RAS. Risk reports to the MRC monthly or ad hoc (significant changes in the risk profile) to its members, as required. The CRO reports to the Risk Committee on a quarterly basis or ad hoc, as required.

1. Risk Reporting: The CRO monitors risk levels to ensure a timely review of risk positions and exceptions.
2. The key components (not limited to) of these reports will include:
 - Top risks in the operating environment
 - Emerging risks for the Bank
 - Risks accepted outside EBC's RAS
 - Operational risk events (including near misses)
 - Key Risk Indicators ("KRIs")
 - Scenarios
 - Change management initiatives
 - Credit risks and exceptions
 - Regulatory environment issues
 - Other relevant business matters

All risks must be managed and can be optimized within the RAS approved by the Board. Treatment of risk can also include insurance of risk or acceptance of risk, as avoiding risk is not an option.

Policies, Framework, Guidelines

The CRO of the Bank has developed an Operational Risk Management ("ORM") Policy to provide a framework and approach for managing operational risks, including processes and control activities, for the various sources of risk present in the operations of the Bank. The Bank's Risk Management Framework ("RMF") includes:

- Board of Directors' approved Risk Appetite Statement ("RAS");
- Policies and procedures implemented to provide reasonable assurance that all material operational risks are identified, measured, monitored, reported, and supported by adequate capital;
- Utilization of operational risk management tools such as risk assessments, operational risks event analysis, scenario analysis etc. to mitigate operational risks for the Bank;
- Centralized repository to report, monitor, and manage operational risk events;
- Periodic risk reporting to appropriate stakeholders;
- Continuous oversight through risk focused committees and governance structure; and
- Implementation of the three lines of defence model to clearly articulate the roles and responsibilities of each line of defence stakeholders.

Governance

The Board of Directors is responsible for the oversight of the Bank's risk management, delegating the primary responsibility to the CRO. The Bank's Senior Management, with oversight from the Board of Directors, is focused on ensuring best practices are implemented in both operations and compliance with a strong focus on risk, business planning and capital management, with a goal of capital preservation and growth through retained earnings.

Operational Risk Mitigation and Controls

The Bank's appetite and tolerance for operational risk is low. Therefore, all appropriate measures are taken towards achieving a high level of operational risk awareness and establishing a rigorous operational risk management system. To ensure that all applicable risks are identified, assessed, monitored and reported:

- The CRO, in consultation with Senior Management, designs, implements and manages the Bank's ORM strategy and framework;



- The Bank uses various tools, as detailed in OSFI’s Guideline E-21: Operational Risk Management, to recognize and understand existing risks and consider risks that may arise from new business initiatives, external market forces, or regulatory or statutory changes;
- A common taxonomy is used to promote consistent risk identification and assessment activities across the Bank;
- Centralized repository is used to report, monitor, and manage operational risk events;
- The first line of defence designs and implements controls, regularly performs operational risk monitoring activities, promptly detect and report deficiencies in the policies, procedures, and processes, and propose corrective actions;
- The CRO monitors risk thresholds to review risk positions and exceptions, in a timely manner;
- Risk Assessments are undertaken by the first line of defence, to identify key risks relevant to the Bank and control assessments provide reasonable assurance on the design and operating effectiveness of the controls currently in place to mitigate those risks; and
- The CRO periodically reports on the risk environment, detailing all material risks and compliance with the ORM Policy, to the MRC, the Board of Directors, and the Risk Committee of the Board of Directors.

Operational Risk Charge

For capital adequacy purposes, the Bank uses the SSA to calculate the operational risk charge for the RWA calculation.

<i>In thousands of Canadian dollars</i>	Year A*	Year B*	Year C <i>Latest 4 Quarters</i>	
Total Interest Earning Assets	40,303	47,138	30,190	
2.25% of Interest Earning Assets	907	1060	679	
Absolute Value of Net Interest Income ("NII")	34	145	331	
Min of 2.25% of Interest Earning Assets and Absolute Value of NII	34	145	331	
Absolute Value of Fee and Commission Income	13,146	24,074	21,845	
Absolute Value of Other Income	54	64	49	
Absolute Value of Net Profit/Loss (Banking Book)	844	3334	1547	
Adjusted Gross Income (pre-M&A Adjustment)	14,078	27,617	23,772	
Adjusted Gross Income (after M&A Adjustment)	14,078	27,617	23,772	
Three-Year Average				21,822
Capital Charge (15%)			15%	3,273
Operational RWA			12.5 β factor	<u>40,913</u>



Leverage Ratio

<i>In thousands of Canadian dollars</i>		Q1 2024	Q4 2023
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	77,593	65,435
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework (IFRS)		-
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)		-
4	(Asset amounts deducted in determining Tier 1 capital)	5,213	5,309
5	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 to 4)	72,380	60,126
6	Replacement cost associated with all derivative transactions	2,168	3,937
7	Add-on amounts for potential future exposure associated with all derivative transactions	9,449	8,912
8	(Exempted central counterparty-leg of client cleared trade exposures)		-
9	Adjusted effective notional amount of written credit derivatives		-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		-
11	Total derivative exposures (sum of lines 6 to 10)	16,264	12,849
12	Gross SFT assets recognised for accounting purposes (with no recognition of netting), after adjusting for sale accounting transactions		-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		-
14	Counterparty credit risk (CCR) exposure for SFTs		-
15	Agent transaction exposures		-
16	Total securities financing transaction exposures (sum of lines 12 to 15)		-
18	(Adjustments for conversion to credit equivalent amounts)		-
20	Tier 1 capital	9,097	10,600
21	Total Exposures (sum of lines 5, 11, 16 and 19)	88,644	72,975
22	Basel III leverage ratio	10.3%	14.5%