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**GPC Financial Corporation**

**BASEL III PILLAR 3 DISCLOSURES**  
**June 30, 2021**

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## **I. Introduction and Purpose**

As a Federally Regulated Financial Institution (FRFI) under the Canadian Trust and Loan Companies Act (1991) (the Act), GPC Financial Corporation (GPCFC) is subject to the regulatory regime of the Office of the Superintendent of Financial Institutions Canada (OSFI).

This Report documents GPCFC's Basel III Pillar 3 disclosures as per the prescribed OSFI Framework that is based on guidance and standards established by the Basel Committee on Banking Supervision (BCBS).

This Report is subject to independent review conducted by the Internal Audit Department. More importantly, it will also be presented to the Board of Directors for review purposes.

This Report will be made available on the GPCFC website.

## **II. GPC Financial Corporation (GPCFC)**

GPCFC was granted its letters patent on December 15, 2011 and received an amended Order to Commence and Carry-on Business from OSFI on April 5, 2013. GPCFC commenced business as a FRFI on October 1, 2013. GPCFC is a wholly owned subsidiary of Global Payments Direct, Inc. (GPD). GPCFC is neither a lending nor a deposit taking institution; its current business is restricted to credit card acquiring activities. Operating within the acquiring activities environment, GPCFC has agreements with merchants enabling them to accept card payments for goods and services rendered.

As a direct member of Visa and MasterCard Canada, GPCFC acts as the financial institution Bin Identification Number (BIN) and InterBank Card Association (ICA) sponsor for GPD's as well as certain of Global Payments United Kingdom's (GPUK) Visa and MasterCard processing services.

GPD and GPUK are wholly owned by Global Payments Inc. (GPI), a publically-traded corporation formed under the laws of the State of Georgia, USA. The outstanding shares of GPI common stock are traded on the New York Stock Exchange (NYSE: GPN).

GPCFC's primary revenue comes from acquiring new Canadian merchants for credit card (Visa & MasterCard) processing and by acting as the BIN/ICA sponsor for certain GPUK and GPD's Visa & MasterCard processing services. GPCFC routes and clears card transactions directly through the Visa and MasterCard networks and funds settlement to the merchants.

On June 30, 2021, GPCFC's balance sheet did not contain any insured deposits, uninsured deposits, mortgages or loans receivable and no direct interest in any commercial or residential property of any kind. GPCFC's balance sheet comprises mostly of daily receivables (settlement processing from the card networks, i.e., Visa and MasterCard) and payables to merchants for their daily credit card processing activities. The settlement processing receivables from the networks and the settlement processing liabilities to the merchants are presented gross and are directly related. Monies received from the networks is settles the liability to the merchants. For these reasons, GPCFC's operations have a stable risk profile.

### III. Corporate Governance

As a FRFI, GPCFC is subject to OSFI's Corporate Governance Guideline (Guideline). Corporate Governance refers to oversight mechanisms, including the processes, structures and information used for directing and overseeing the management of a FRFI. Sound corporate governance practices contribute to the effective management and to the achievement of a FRFI's strategic and operational plans, goals and objectives. In this regard, OSFI expects this Guideline to be imbedded into every FRFI's day to day operations. Key elements of GPCFC's corporate governance structure are as follows:

- Board of Director's Oversight;
- Audit and Risk Committee; and
- Conduct Review Committee.

At present, GPCFC has 8 (eight) Board of Directors with 4 (four) being internal and affiliated and 4 (four) being external and unaffiliated members. Majority of the members of the two Committees including the Chairman are external members and the Chairman of the Board is also an external member entitled to cast a second vote in the event that there is no majority during the adoption of a resolution.

GPCFC also has four (4) independent oversight functions that are responsible for providing enterprise-wide oversight of operational management. Operational management is responsible for planning, directing and controlling day to day operations. These oversight functions are independent of operational management and the executives responsible for managing them are as follows:

- Finance: Chief Financial Officer;
- Risk Management: Chief Risk Officer;
- Compliance: Chief Compliance Officer; and
- Internal Audit: Chief Internal Auditor.

### IV. Capital Structure

GPCFC's capital consists of common shares and retained earnings. As per Board and Shareholder approved By-Laws, an unlimited number of common shares have been authorized. **All of GPCFC's capital is Common Equity Tier 1 as at June 30, 2021, 1,160 common shares were issued and outstanding. GPDI is the sole shareholder of GPCFC.**

Share Capital	
Authorized	Unlimited common shares
Issued	1,160 Common Shares for \$29M

**V. Capital Management**

One of GPCFC's objectives is to be an appropriately capitalized institution as defined by regulatory authorities. GPCFC manages its capital under OSFI's Capital Adequacy Requirement (CAR) guidelines. OSFI's guidelines are based on BCBS's Basel II and Basel III Frameworks and measures capital in relation to credit, market and operational risks. GPCFC has various capital policies, procedures and controls, including an Internal Capital Adequacy Assessment Process (ICAAP), which it utilizes to achieve its goals and objectives. The ICAAP includes the following components:

- |                                              |                             |
|----------------------------------------------|-----------------------------|
| 1. Board and Senior Management(SM) oversight | 4. Stress testing           |
| 2. Sound capital assessment and planning     | 5. Monitoring and reporting |
| 3. Comprehensive assessment of risks         | 6. Internal control review  |

The ICAAP also includes assessment of GPCFC's risk appetite. Risk appetite is considered to be the amount of risk GPCFC is willing to accept in the normal course of business in pursuit of its strategic and financial objectives. GPCFC's risk appetite is embodied in quantitative statements or target measures for capital adequacy and individual risk types and is approved by the Board on an annual basis. The ICAAP is submitted to OSFI and reviewed by Internal Audit as per OSFI's prescribed schedule.

**Regulatory Capital & Risk Weighted Assets (RWA)**

OSFI's regulatory capital guidelines under Basel III allow for two tiers of capital. As at June 30, 2021, Common Equity Tier 1 (CET1) capital includes common shares, retained earnings and accumulated other comprehensive income. GPCFC currently does not hold any additional Tier 1 or Tier 2 capital instruments. Therefore, the Company's CET1 is equal to its Tier 1 and Total capital.

Total capital for GPCFC on June 30, 2021 is \$76,264 (in 000's).

Total capital ratio is calculated as total capital divided by risk-weighted assets (RWA). As per the Standardized Approach, RWA for Credit risk is \$218,871 and as per the Basic Indicator Approach, the RWA for Operational risk is \$32,780 on June 30, 2021.

Risk Weighted Assets (RWA) (000's)	Q1, 2020	Q2, 2020	Q3, 2020	Q4, 2020	Q1, 2021	Q2, 2021
Operational Risk (Basic indicator approach)	\$30,877	\$31,614	\$31,094	\$31,867	\$32,768	\$32,780
Credit Risk (Standardized approach)	\$132,968	\$157,789	\$175,065	\$198,347	\$203,156	\$218,871
Total RWA	\$163,845	\$189,403	\$206,159	\$230,214	\$235,924	\$251,651

OSFI targets for Common Equity Tier 1, Total Tier 1, and Total Capital Ratios to be at least 7%, 8.5% and 10.5%, respectively. In this regard, Tier 1 and total capital ratio for GPCFC was 30.31% as at June 30, 2021.

Capital Targets (as percentage of RWA)	Q2, 2020	Q3, 2020	Q4, 2020	Q1, 2021	Q2, 2021	OSFI Guideline
Common Equity Tier 1 (CET1)	35.74%	33.18%	30.47%	31.23%	30.31%	7%
Tier 1 Capital	35.74%	33.18%	30.47%	31.23%	30.31%	8.5%
Total Capital	35.74%	33.18%	30.47%	31.23%	30.31%	10.5%

(To be continued...)

**V. Capital Management (continued)****Leverage Ratio**

As per Basel III leverage ratio framework and disclosure requirements, all FRFIs must report leverage ratio beginning Q1, 2015. For GPCFC, the leverage ratio is calculated as Tier 1 capital divided by total assets. **In this regard, the leverage ratio for GPCFC was 15.71% as at June 30, 2021.**

Leverage Ratio	Q1, 2020	Q2, 2020	Q3, 2020	Q4, 2020	Q1, 2021	Q2, 2021
Leverage Ratio	22.4%	18.03%	18.18%	17.43%	17.04%	15.71%

**VI. Enterprise Wide Risk Management (ERM) Framework**

GPCFC has implemented an Enterprise Wide Risk Management (ERM) Framework, a comprehensive process for assessing, identifying, monitoring and mitigating key business risks that could interfere with GPCFC's objectives and goals. ERM provides independent oversight of the management of risks inherent in GPCFC's activities. Its key objectives are:

- Identifying current and emerging risks
- Developing risk assessment and measurement systems
- Establishing policies, practices and other control mechanisms to manage risks
- Developing risk tolerance limits for SM and Board approval
- Monitoring positions against approved risk tolerance limits
- Reporting results of risk monitoring to SM and the Board

The following section presents information about the GPCFC's exposure to key risks, its objectives, policies and processes for measuring and managing risk and its management of capital.

**A. Structural Interest Rate Risk in the Banking Book (IRRBB)**

IRRBB is the risk of loss when on and/or off-balance sheet assets and liabilities are mismatched with respect to re-pricing or maturity dates and as such, are exposed to adverse movements in interest rates. IRRBB risk is not applicable to GPCFC given that it does not have a traditional deposit-taking or lending book subject to gap or mismatch risk.

**B. Credit Risk**

Credit risk is the risk of financial loss resulting from the failure of a debtor, for any reason, to fully honor its financial contractual obligations to GPCFC.

GPCFC acts as the financial institution Bin Identification Number (BIN) and InterBank Card Association (ICA) sponsor for GPDI's as well as certain of Global Payments United Kingdom's (GPUK) Visa and MasterCard processing services. As such, GPCFC has minimal credit exposure given that GPDI is responsible for all losses associated with entire merchant portfolio and related services. The credit policies and procedures associated with managing and monitoring exposure to merchant credit risk are outlined in the Credit Risk Management Policy, which outline merchant assessment approval procedures, risk rating, account management, and collections processes. Credit risk is managed by GPDI with oversight from SM and the Board. Based on the above assessment, management considers there to be a low risk of credit risk underestimation using the Standardized Approach.

(To be continued...)

**VI. Enterprise Wide Risk Management (ERM) Framework (continued)****C. Operational Risk**

Operational risk is the potential loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

GPCFC operates within a strong internal control environment and its Enterprise Risk Management Program incorporates risk assessment processes (business unit level assessment, documentation of identified risks and controls in place to mitigate them) in its overall objective and annual work plan.

**D. Market Risk**

Market risk is the risk that value of investments may decline over a given period because of economic changes or other events impacting large portions of the market. GPCFC does not have a portfolio that meets the qualifying criteria and has no material foreign exchange positions.

**E. Liquidity & Funding Risk**

Liquidity and funding risk for GPCFC is the risk that it may be unable to generate or obtain sufficient cash or its equivalent in a timely and cost-effective manner to meet its commitments as they come due. GPCFC's Liquidity and Funding Management Policy and related procedures define the policies, standards and practices associated with managing and monitoring the exposure to liquidity and funding risks. GPCFC monitors its liquidity position daily together with its cash flow forecasts. For additional funding, the Company has a borrowing facility with GPDJ for up to \$10 million and an external overdraft facility for up to \$200 million. The key measures for managing liquidity include GPCFC establishing and maintaining:

- A Liquidity Ratio which is the sum of total liquid assets (cash and cash equivalents) to total non-cash assets, equal to at least 5% and monitoring the Ratio to identify adverse balance sheet trends and develop appropriate management strategies, as needed.
- Borrowing facilities with GPDJ and a Schedule I Bank.
- GPCFC has established a Liquidity and Funding Contingency Plan. The Plan outlines the process to manage the range of stress environments and establish clear lines of responsibility and escalation procedures.
- GPCFC has established processes and regular reporting to ensure that it is in full compliance with the applicable elements of OSFI Guidelines.

# VII. Basel III Pillar 3 Capital Disclosure

Basel III Pillar 3 Capital Disclosure									
As at June 30, 2021								Q2 2021	
(Amounts in thousands of Canadian Dollars except percentages)								All-In	
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							\$	29,000
2	Retained earnings							\$	47,264
3	Accumulated other comprehensive income (and other reserves)								0
4	Directly issues capital subject to phase out from CET1 (only applicable to non-joint stock companies)								NA
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)								NA
6	Common Equity Tier 1 capital before regulatory adjustments							\$	76,264
Common Equity Tier 1 capital-regulatory adjustments									
28	Total regulatory adjustments to Common Equity Tier 1								NA
29	Common Equity Tier 1 capital (CET1)							\$	76,264
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								NA
32	of which: classified as liabilities under applicable accounting standards								NA
33	Directly issued capital instruments subject to phase out from Additional Tier 1								NA
34	Additional Tier 1 instruments (and CET1 instruments are not included in row 5) issued by subsidiaries and held by third parties (amount allowed group AT1)								NA
35	of which: instruments issued by subsidiaries subject to phase out								NA
36	Additional Tier 1 capital before regulatory adjustments								NA
Additional Tier 1 capital: regulatory adjustments									
43	Total regulatory adjustments to Additional Tier 1 capital								NA
44	Additional Tier 1 Capital (AT1)								NA
45	Tier 1 capital (T1=CET1+AT1)							\$	76,264
Tier 2 capital: instruments and allowances									
46	Directly issued qualifying Tier 2 instruments plus related surplus								NA
47	Directly issued capital instruments subject to phase out from Tier 2								NA
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)								NA
49									NA
50	Collective allowances								NA
51	Tier 2 capital before regulatory adjustments								NA
Tier 2 capital: regulatory adjustments									
57	Total regulatory adjustments to Tier 2 capital								NA
58	Tier 2 capital (T2)								NA
59	Total capital (TC=T1+T2)							\$	76,264
60	Total risk-weighted assets							\$	251,651
Capital Ratios									
61	Common Equity Tier 1 (as percentage of risk-weighted assets)								30.31%
62	Tier 1 (as percentage of risk-weighted assets)								30.31%
63	Total capital (as percentage of risk-weighted assets)								30.31%
OSFI all-in target									
69	Common Equity Tier 1 capital all-in target ratio								7.00%
70	Tier 1 capital all-in target ratio								8.50%
71	Total Capital all-in target ratio								10.50%
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)									
80	Current cap on CET1 instruments subject to phase out arrangements								NA
81	Amounts included from CET1 due to cap (excess over cap after redemptions and maturities)								NA
82	Current cap on AT1 instruments subject to phase out arrangements								NA
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)								NA
84	Current cap on T2 instruments subject to phase out arrangements								NA
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)								NA



# VIII. Basel III Leverage Ratio Disclosure

Basel III Leverage Ratio Disclosure									
As at June 30 ,2021									Q2 2021
(Amounts in thousands of Canadian Dollars except percentages)									All-In
On-balance sheet exposures									
1	On balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)								\$ 485,303
2	Gross-up for derivatives collateral provided where deducted from balance sheets pursuant to the operative accounting framework (IFRS)								NA
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)								NA
4	(Asset amounts deducted in determining Tier 1 capital)								NA
5	Total on-balance sheet exposures (excluding derivatives and SFTs) (sume of lines 1 and 4)								\$ 485,303
Derivative Exposures									
6	Replacement cost associated with all derivative transactions								NA
7	Add-on amounts for potential future exposures associated with all derivative transactions								NA
8	(Exempted central counterparty-leg of client cleared trade exposures)								NA
9	Adjusted effective notional amount of written credit derivatives								NA
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)								NA
11	Total derivative exposures (sum of lines 6 to 10)								NA
Securities financing transaction exposures									
12	Gross SFT assets recognized for accounting purposes (with no recognition of netting), after adjusting for sale accounting transactions								NA
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)								NA
14	Counterparty credit risk (CCR) exposure for SFTs								NA
15	Agent transaction exposures								NA
16	Total securities financing transaction exposures (sum of lines 12 to 15)								NA
Other off-balance sheet exposures									
17	Off-balance sheet exposure at gross notional amount								NA
18	(Adjustments for conversion to credit equivalent amounts)								NA
19	Off-balance sheet items(sum of lines 17 and 18)								NA
Capital and Total Exposures									
20	Tier 1 capital								\$ 76,264
21	Total Exposures (sum of lines 5, 11, 16 and 19)								\$ 485,303
Leverage Ratios									
22	Basel III leverage ratio								15.71%