Peoples Group

# PEOPLES GROUP
# PUBLIC DISCLOSURES
(BASEL III PILLAR 3 and Leverage Ratio)

**As at December 31, 2020**

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Peoples Group

# Peoples Group – Public Disclosures (Pillar 3 and Leverage Ratio)

## Disclosure Policy

This document presents the Basel III Pillar 3 and Leverage Ratio disclosures for Peoples Group of Companies ("PG" or "the Company"). These disclosures are made pursuant to Office of the Superintendent of Financial Institutions ("OSFI") requirements and are based on global standards established by the Bank of International Settlements, Basel Committee on Banking Supervision (the "BCBS").

The Disclosure Policy is approved by the Board and is subject to annual review following publication of the Annual Report.

## Location and Verification

The Pillar 3 and Leverage Ratio disclosures are published under the Regulatory Disclosures section of the Company's website. The disclosures in this statement are on a consolidated basis. PG includes the consolidated accounts of Peoples Trust Company and its primary subsidiaries, People's Bank of Canada (PBC), Peoples Card Services LP (PCS), Peoples Payment Solutions Ltd (PPS), Lendful Financial Inc., and First Inheritance Inc.

This report is subject to internal review and has not been audited by PG's external auditors.

## Background

Peoples Trust Company (PTC) is a Canadian federally regulated trust Company and incorporated under the *Trust and Loan Companies Act* on October 3, 1978. Peoples Bank of Canada is a chartered bank under Schedule 1 of the *Bank Act* incorporated on July 4, 2019, commencing its operations on November 4, 2019. Both entities are supervised by OSFI and maintain their registered offices at 1400 – 888 Dunsmuir Street, Vancouver, British Columbia, V6C 3K4.

PG provides specialized financial services to the Canadian marketplace.

PG underwrites and services a variety of single-family and multi-family residential mortgage products, as well as contractual loans. PG regularly participates in the National Housing Authority ("NHA program") Mortgage Backed Security ("MBS program"), and Canada Mortgage Bond ("CMB program"). Other lending products include asset-backed business lines of credit and consumer financing loans. In addition, PG offers deposit products and, through PCS and PPS, provides card issuing and merchant acquiring services within the Visa and MasterCard programs. PBC offers insured and uninsured single-family residential (SFR) mortgages and deposit services, including savings and term deposits to the Canadian market.

PG is a group of privately held companies licensed to conduct operations across Canada. Its primary owner is Peoples Trustco Ltd., also a privately held, wholly Canadian-owned Company.

**Statement of Risk Appetite**

As documented in the Company's Risk Appetite Framework (RAF) and Enterprise Risk Management (ERM) policy, risk appetite is an expression of the level of risk that PG is prepared to accept to achieve its business objectives and optimize returns. The RAF is reviewed and updated by management and approved by the Board annually and when the strategic plans are reassessed.

The COVID-19 pandemic has affected industries across Canada, including the financial sector. During these unprecedented times, PG has continued to maintain a conservative risk profile to maintain internal operational effectiveness and look for opportunities to diversify.

**Risk Management Policies and Objectives**

Risk management is the process of identifying, assessing, measuring, mitigating, monitoring and reporting the principal risks to PG strategic objectives. The Internal Capital Adequacy Assessment Process ("ICAAP") is an integral part of PG's risk management framework. PG performs the ICAAP at least annually. The disclosures in this report are based on the ICAAP.

The Company's ERM and RAF reinforce risk management as an integral part of PG's corporate strategic planning process. PG has identified the following risks as being the most relevant.

***Market Risk***

In the normal course of its operations, PG engages in transactions that give rise to market risk. Market risk is the risk that changes in market prices, such as interest rates and credit spreads, will affect the fair value of future cash flows of PG's financial instruments. PG manages market risk to maintain its exposure on its mortgage, consumer and corporate loan, investment, deposit, MBS, and CMB portfolios within its risk appetite.

PG does not engage in market trading activities or speculative investments.

***Interest Rate Risk***

Interest rate risk is the risk of loss resulting from changes in interest rates or in the volatility of interest rates. Changes in interest rates may adversely affect the future profitability or the fair values of financial instruments.

The Company funds its fixed and floating-rate mortgage portfolios with fixed-rate liabilities, demand deposits, fixed-rate term deposits, and a secured credit facility. The maturity, cash-flow, re-pricing, and reference rate differences between assets and liabilities create interest rate risk. Changes in interest rates and spreads affect the interest rate margin realized between assets and liabilities.

PG's Interest Rate Risk Policy establishes a short-term and a long-term risk tolerance level. The policy is aligned with the impending changes to OSFI B-12 for non-D-SIBs. Implementation of the changes has been deferred from December 31, 2020, to January 2022 due to the pandemic.

As of December 31, 2020, a decrease of 2% in interest rates is estimated to negatively impact earnings by $2.2 million (December 31, 2019: $2.0 million). Alternatively, if interest rates were to rise by 2%, the estimated decrease in income would be $0.3 million (December 31, 2019: increase in income of $30 million).

PG hedges the interest rate risk using interest rate swaps and bond forward contracts. Hedge strategies aim to consider interest rate exposures arising from interest rate movements.

In recent years, a sophisticated treasury risk management system was implemented to comprehensively measure, manage and report on interest rate, and liquidity and funding risk thresholds at consolidated and individual product/business lines. Further development work will continue throughout 2021 and beyond.

***Credit Risk***

Credit Risk is the risk of financial loss resulting from PG’s customers and counterparties' failure to honour or perform fully under the terms of a loan or contract. Credit concentration risk arises where there is a concentration of exposures to counterparties exposed to similar risk factors: geographic location, product type, industry sector, or counterparty type.

Within the Company’s operations, credit risk arises primarily from mortgages and loans to customers, investment in lease receivables secured by liens on properties, and investments in liquid assets as part of PG’s treasury operations.

PG lending policies place conservative limits on loan to value ratios and geographical and single borrower concentrations. Relevant earnings and cash flow factors are also considered. Most of the loan portfolio is insured by Canada Mortgage and Housing Corporation (CMHC) or other Approved Insurers. The Company’s investment in lease receivables is comprised of a significant volume of low-value accounts. Management policy outlines eligibility criteria for the initial purchase and requires ongoing monitoring of arrears and servicer’s collection efforts to manage credit risk. Investment policies only permit Treasury to invest in highly-rated or government-backed securities subject to prudent concentration limits.

PG uses standard collateral instruments or has specific documentation drawn up by external legal counsel where required. Where applicable, security interests are registered. PG uses a collateral management system to ensure that the collateral has been properly taken, registered, and stored.

To ensure the reliability of collateral valuations, PG has developed comprehensive rules surrounding acceptable types of valuations, including approved lists of qualified appraisers who may value an asset and the frequency of re-valuations.

The Company maintains individual provisions for credit loss, as well as a collective provision to cover expected credit losses that have not yet been specifically identified. Collective general allowances are maintained in accordance with guidance from IFRS standards and OSFI. The Company reviews general and specific credit loss provisions on a quarterly basis to ensure provisions are adequate. Collective provisions for expected credit losses are forward-looking.

Facilities where a contractual payment has not been met, or the customer is outside of contractual arrangements are deemed past due. Past due facilities include those operating in excess of approved arrangements or where scheduled repayments are outstanding but do not include impaired assets.

A loan or lease receivable is recognized as being impaired when the Company identifies objective evidence that it is no longer reasonably assured of the timely collection of the full amount of principal and interest. As a matter of practice, the loan/lease receivable is reviewed for impairment when it is in legal action or more than three months in arrears. Impairment is construed when the underlying security would not be sufficient to recover the full outstanding amounts of principal, interest, and recovery costs, or there is an occurrence of a loss event that will materially affect the related future cash flows. In this instance, a provision is recorded for the difference between the asset's carrying amount and the present value of the estimated future cash flows.

PG participated in the deferral mortgage payment program introduced in Q1 2020 in response to the pandemic. Qualifying borrowers were offered short-term payment deferrals. During this deferral period, deferred loans were treated as fully performing in accordance with OSFI guidelines with regular aging resuming after the end of the deferral period. Opting into a payment deferral program does not in and of itself trigger an impairment or indicate a significant increase in risk at the end of the deferral period. As at Dec 31, 2020, there was only 0.3% of qualifying loans still in payment deferral.

The following table provides an analysis of past due and impaired loans by type of mortgage asset *(reported in Thousands of Canadian dollars)*.

| | Residential mortgages | Non-residential mortgages | Business/ Consumer Loans | Securitized mortgages | Investment in lease receivables | Total |
|---|---|---|---|---|---|---|
| **As at Dec 31, 2020** | | | | | | |
| | $ | $ | $ | $ | $ | $ |
| Past due but not impaired [1] | | | | | | |
| 1 – 30 days | 14,230 | - | 142 | 6,864 | 69,307 | 90,543 |
| 31 – 60 days | 375 | - | 35 | 847 | 8,517 | 9,774 |
| 61 – 90 days | 1,681 | - | 47 | - | 2,132 | 3,860 |
| Over 90 days | - | - | - | - | - | - |
| | 16,286 | - | 224 | 7,711 | 79,956 | 104,177 |
| Impaired | | | | | | |
| Loans receivable | 31,116 | - | 398 | 2,302 | 23,909 | 57,725 |
| Specific provision | (490) | - | (265) | (1) | (5,751) | (6,507) |
| | 30,626 | - | 133 | 2,301 | 18,158 | 51,218 |

| | Residential mortgages | Non-residential mortgages | Business/ Consumer Loans | Securitized mortgages | Investment in lease receivables | Total |
|---|---|---|---|---|---|---|
| **As at Dec 31, 2019** | | | | | | |
| | $ | $ | $ | $ | $ | $ |
| Past due but not impaired [1] | | | | | | |
| 1 – 30 days | 91,690 | - | 146 | 4,036 | 4,123 | 99,995 |
| 31 – 60 days | 8,177 | - | 2,005 | 1,396 | 1,409 | 12,987 |
| 61 – 90 days | 15 | - | - | - | 1,856 | 1,871 |
| Over 90 days | - | - | - | - | - | - |
| | 99,882 | - | 2,151 | 5,432 | 7,388 | 114,853 |
| Impaired | | | | | | |
| Loans receivable | 45,235 | - | 492 | 2,358 | 15,312 | 63,397 |
| Specific provision | (668) | - | (315) | (1) | (3,730) | (4,714) |
| | 44,567 | - | 177 | 2,357 | 11,582 | 58,683 |

[1] Residential Mortgages comprise insured and uninsured mortgages

PG has a governance and control framework that facilitates timely identification of significant increases in credit risk. Under IFRS 9 Financial Instruments for the recognition of expected credit losses, a provision for expected credit losses on individually significant exposures and credit-impaired loans is measured individually, while the remainder of the portfolio is measured on a collective basis. Based on the change in risk since initial recognition, the portfolio is staged in three categories in order to calculate respective expected credit losses taking into consideration forward looking data.

### *Securitization Risk*

Securitization Risk is the risk of credit related losses occurring that are greater than expected due to a securitization failing to operate as anticipated, or of the values and risks accepted or transferred, not emerging as expected.

PG is an active issuer and servicing agent in the MBS program and is an issuer and servicing agent to Canada Housing Trust under the CMB program. As issuer, the Company originates mortgage products that are insured and then arranges for the pooling of such mortgages into NHA MBS that also carry a Government of Canada guarantee. The Company, as servicing agent, collects mortgage payments monthly and then distributes principal amounts collected and interest payable on the security.

PG has securitized its own originated insured mortgages in order to manage its credit risk position, to improve regulatory capital ratios, and to generate liquidity for the balance sheet.

Through the program, the Company issues securities backed by single-family and multi-family residential mortgages that are insured against borrowers' default. Once the mortgage loans are securitized, the Company assigns underlying mortgages and/or related securities to CMHC. As an issuer of MBS and CMB programs, PG is responsible for advancing all scheduled principal and interest payments to CMHC, irrespective of whether or not the amounts have been collected on the underlying transferred mortgages, and then recovers these amounts from the borrower. The Company participates in the MBS and CMB programs that lead to both on-balance sheet and off-balance sheet treatment.

The Company securitizes mortgages where prepayment and interest rate risk are retained. Given that substantially all the risk and rewards associated with the transferred assets are retained, the transferred mortgages continue to be recognized on the consolidated balance sheet as residential mortgage loans. The cash proceeds from the transfer are treated as secured borrowings and included as a liability on the consolidated balance sheet.

The following is the Company's net positions on its securitized assets and liabilities (reported in Thousands of Canadian dollars):

| | **2020** | **2019** |
|---|---|---|
| | **$** | **$** |
| Fair value of securitized mortgage receivables[1] | 1,532,372 | 1,208,656 |
| Fair value of securitization liabilities | 1,429,275 | 1,087,499 |
| **Net Positions** | 103,097 | 121,157 |

[1] At December 31, 2020, securitized mortgage receivable of $106,370 (2019 - $121,114) were not sold to third parties and were held by the Company for liquidity purposes of which $8,531 (2019 - $nil) had been pledged as collateral.

The following table provides an analysis of the securitized mortgage receivables (reported in Thousands of Canadian dollars):

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Securitized Mortgages | 1,491,535 | 1,192,377 |
| Accrued Interest | 1,504 | 1,785 |
| | 1,493,039 | 1,194,162 |
| Less Allowance for credit losses | (330) | (92) |
| | 1,492,709 | 1,194,070 |
| Unamortized loan orgination costs | 14,578 | 10,831 |
| Balance | 1,507,287 | 1,204,901 |

The following table provides an analysis of the securitization liabilities (reported in Thousands of Canadian dollars):

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Securitization Liabilities | 1,406,542 | 1,085,722 |
| Accrued Interest | 1,958 | 2,396 |
| | 1,408,500 | 1,088,118 |
| Unamortized MBS and CMB program costs | (5,899) | (6,055) |
| Balance | 1,402,601 | 1,082,063 |

PG ensures that the credit and funding risks on underlying assets are addressed in accordance with the respective risks discussion within this policy. PG also minimizes counterparty risk by ensuring it enters securitization transactions with only Canadian Schedule 1 banks.

Securitization activities that involve off-balance sheet treatment occurs when the Company securitizes insured multi-unit closed residential and social housing mortgages where the prepayment rate risk is mitigated, and the principal reinvestment risk is transferred to a third party. Additionally, the Company sells insured residential mortgages to third party financial institutions prior to securitization. In both situations, the Company does not retain prepayment risk and interest rate risk related to the transferred mortgages. There are minimal expected credit losses on the sold mortgages, as the mortgages are insured against default. These transactions therefore result in derecognition of the financial liabilities as third parties assume legal responsibility for the liabilities.

PG generated and securitized a total of $1.6 billion (2019: $1.5 billion) in closed multi-unit residential pools and $614 million (2019: $673.3 million) in open multi-unit and single-family residential pools for the period ending December 31, 2020. In addition, the Company generated and sold open and closed multi-unit residential pools to third parties in the amount of $1.6 billion (2019: $866.0 million). Risk is significantly reduced as legal responsibilities are transferred to third parties at the time the loans are sold. The corresponding gains and losses on the closed pools are recognized upon securitization or sale of the mortgages. Open multi-unit and single residential pools earn income over the pool term.

Securitization volume increased substantially during the pandemic as PG enrolled in a governmental initiative to increase liquidity in the market. The size of the CMB program increased by $20 billion to $60 billion through the Insured Mortgage Purchase Program (IMPP) where the CMHC was prepared to purchase up to $150 billion of insured mortgage pools from all issuers.

Derivatives

PG enters into over-the-counter derivative agreements as part of the requirement for participating in the CMB Program, in the form of interest rate swaps and bond forward contracts. PG enters into bond forward contracts to secure interest rates on future sale of Mortgage Backed Securities while interest rate swaps are used to manage the change in cash flows of future interest payments and prepayments, if any, on assets funded on balance sheet.

The fair value of derivative instruments has been included as part of the “fair value through profit and loss financial instruments mark to market” as reported in the 2020 audited financial statements (Note 22) as a liability of $2.1 million (2019: as an asset of $7.6 million).

### ***Liquidity and Funding Risk***

Liquidity and funding risk (LFR) is the risk that PG has insufficient cash balances to settle liabilities and commitments as they come due or to survive a liquidity stress event. The Company’s three main funding needs relate to (1) the participation in the NHA MBS/CMB programs, (2) the funding of conventional mortgage, lease receivables and consumer loan activities, and (3) the repayment of deposit balances.

LFR is managed in accordance with limits and asset quality measures which are set out in the Liquidity and Funding Risk Management Policy. Cash flow forecasts and a 90 day survival horizon model are the principal management information controls used to monitor liquidity on a daily basis. PG has a contingency funding plan in place and performs specific scenario stress testing analyses on an annual basis.

During the pandemic, PG effectively mitigated its LFR by taking advantage of the various relief measures announced in response to Covid-19. PG enrolled in the Bank of Canada Standing Term Liquidity Facility (STLF) and the IMPP as indicated above, participated in the deferred mortgage payment program and improved its funding flexibility by renewing / increasing its committed warehouse facility.

The Board of Directors has appointed an Assets and Liabilities Committee (ALCO), comprising members of senior management, chaired by the Chief Executive Officer. The ALCO is responsible for overseeing the management of market, liquidity, and funding risks.

Liquidity risk is also closely supervised by external regulators. Through the liquidity adequacy standard, OSFI requires financial institutions to monitor and report on several comprehensive liquidity requirements. The Company is required to report on the liquidity coverage ratio (LCR) which ensures adequate levels of high-quality liquid assets are held to meet liquidity needs within a 30 day time frame. This is in addition to the net cumulative cash flow (NCCF) which reports cash flows beyond 30 days from the reporting period. As a liquidity monitoring tool, PG reports the Liquidity Activity Monitor (LAM) return, on a bi-weekly basis, to monitor certain key liquidity account balances.

***Regulatory Compliance Risk***

Regulatory compliance risk is the risk to earnings and capital from the Company's potential non-compliance with laws, rules, regulations, prescribed practices, or ethical standards in any jurisdiction in which it operates.

PG's Conduct, Governance and People Committee and Risk Committee provide oversight and establishes policies to ensure the Company operates within the laws and regulations mandatory for financial institutions. Senior management promotes regulatory compliance and embeds it within the corporate culture through formal procedures that adhere to the established policies.

On a monthly basis, the Chief Risk Officer, Chief Operations Officer, Chief Financial Officer and/or Chief Credit Officer monitor and report regulatory and internal policy non-compliance issues through the Legislative Compliance Certificate, in which the remedial actions required and expected dates of resolution are identified. Once the non-compliance issues are identified, senior management takes immediate action to remedy the issues to avoid significant financial impact to the Company.

The Company is in the process of implementing compliance management software that provides a central repository of updated regulatory requirements and assigns accountability to these requirements aligned with specific timelines. The tool provides a formalized process to ensure regulatory compliance items are appropriately addressed.

***Strategic Risk***

Strategic risk is the risk to earnings arising from the PG's potential inability to implement appropriate business plans and strategies, make decisions, allocated resources, or adapt to changes in its business environment.

The Company mitigates this risk by maintaining diversification of business segments in accordance with market trends. Over the years, the Company has broadened its business operations from conventional lending to expanding the securitization programs and the payment solutions/card services operations. There is continual focus on growth of the consumer lending channel through investment in consumer leases and personal lending business. Finally, PG established PBC in 2019 to further advance the insured and uninsured single-family mortgage portfolio and will continue to do so in a cautious and gradual manner. The risk to earnings as a result of one business segment would be compensated by the other business segments.

Business plans and strategies are developed and implemented by management and approved by the Board of Directors to ensure corporate objectives are met within acceptable levels of risk. The Company carefully researches and monitors growth opportunities and assesses the possible effects on our balance sheet and income statement.

**Capital Management**

PG's principal goal in managing its capital is to maintain capital ratios above regulatory requirements, by establishing more stringent internal targets than those set out by OSFI and the Basel III requirements, while still ensuring that capital is efficiently allocated to business operations appropriate to their risk levels.

Capital is managed on a consolidated basis under principles which observe the risks associated with business operations. PG calculates and reports regulatory capital ratios as prescribed under Pillar 1 of the Basel III framework and has adopted the Standardized Approach to credit risk and the Basic Indicator approach to operational risk. PG has complied with all internal and regulatory capital requirements.

PG's capital requirement for operational risk based on December 31, 2020 figures is $19.2 million (December 31, 2019: $15.7 million). The capital requirement after risk weighting is $240.5 million (December 31, 2019: $196.3 million). The Company's capital resources based on December 31, 2020 figures are summarized in Appendix I attached to this policy. The table contained in Appendix I is prepared on the modified disclosure template required by OSFI defined in the BCBS Disclosure Rules.

**Regulatory Capital Structure**

Total capital comprises three tiers. Tier 1 (core capital) comprises the highest quality capital elements. Tier 2 elements (supplementary capital) includes items such as reserves, provisions and hybrid instruments. Tier 3 capital is used only to meet market risk capital requirements. Within PG, the total regulatory capital comprises:

- Tier 1 (core capital) comprises only Common shareholders' equity (defined as common shares, contributed surplus, and retained earnings).

- Tier 2 (supplementary capital) comprises the collective allowance for expected credit losses.

- Tier 3 is nil.

Total regulatory capital is calculated and reported under IFRS.

Regulatory ratios are calculated by dividing Tier 1 and total capital by risk-weighted assets ("RWA").

The calculation of RWA is determined by OSFI-prescribed rules relating to on balance sheet and off balance sheet exposures. In addition, OSFI formally establishes risk-based capital targets for deposit-taking institutions.

To provide relief to institutions as a result of the pandemic, OSFI has allowed a portion of the general allowance for expected credit losses (ECL) balance to be reclassified from Tier 2 capital to Common Equity Tier 1 capital. PG's Tier 2 capital is proportionately immaterial; therefore, the relief does not have a significant impact for the Company.

In addition to the Tier 1 and Total capital ratio, PG is required to ensure that its leverage ratio, which is calculated by dividing Tier 1 capital by total on and off-balance sheet exposures, does not fall below the minimum level prescribed by OSFI. This measure (as summarized in Appendix II) was implemented to ensure financial institutions bear adequate levels of capital compared to total assets.

**Capital Adequacy**

PG uses the annual ICAAP and risk assessment to determine the material risks that PG faces, to ensure that sufficient quality and quantity of capital is available to conduct its business activities. The ICAAP analysis is conducted by senior management and presented to the Company's Board of Directors for review and approval, together with the annual budget and capital plan. As part of the ICAAP analysis, stress test scenarios are conducted to predict how PG will perform under stressed conditions and determine if additional capital cushion or other mitigating actions are required. The resulting report serves to keep the Board informed of the ongoing assessment of risks facing the Company, the manner in which the Company mitigates those risks, and the adequacy of the Company's capital, should the material risks identified materialize. The ICAAP report is a fundamental part of PG's procedures to ensure it has adequate capital and controls to support the Company's current and future activities.

As noted above, the Board of Directors has approved specific policies that seek to manage and mitigate credit, interest rate, liquidity, and securities portfolio risks. These policies are implemented and monitored monthly by management and quarterly by the Board.

In addition to overseeing the management of market, liquidity, and funding risks, members of the ALCO advise on capital utilization and the composition and sourcing of adequate capital. The Audit Committee, consisting solely of non-executive directors, considers the adequacy of internal controls and compliance with regulatory and other requirements. It is the Audit Committee to which the findings of Internal Audit are reported.

PG's ICAAP is reviewed by the Board annually and is audited by PG's internal audit team in the years it is submitted to OSFI.

As part of the COVID-19 relief measures, OSFI permitted financial institutions to use their Pillar II capital buffers and operate below internal capital limits established in the ICAAP. PG has a strong capital position and has not needed to utilize the buffer.

**Remuneration**

PG is subject to data protection legislation when disclosing remuneration information. The *Personal Information Protection and Electronic Documents Act* prohibits disclosing information that may result in individual information being easily identifiable. Remuneration disclosures will therefore be made on a limited basis in terms of any public or Company-wide circulation. However, all necessary information will be made available to OSFI upon request.

Given the size and relatively non-complex nature of the Company, PG has employed proportionality, but where appropriate, has not assimilated various provisions of the Financial Stability Board's Principles for Sound Compensation Practices within its business model.

Due to the relatively moderate size and lack of complexity of the Company, PG is not required to appoint an independent Board remuneration committee. Current processes will be kept under review and should the need arise, PG will consider amending this arrangement to provide greater independent review.

The Company's Board of Directors is responsible for overseeing compliance with PG's processes on remuneration. The determination of remuneration processes is based on guidance provided by OSFI and subject to input and review by PG's control functions and People and Culture department.

PG endeavours to ensure that its remuneration policy is consistent within its business strategy, the Company's current financial condition, and long term growth. PG's compensation structure is based on a combination of fixed pay (salary and benefits) and performance related incentives linked to company-wide measures, as well as the seniority and nature of an individual's employment. Performance measurements used to calculate variable remuneration are therefore adjusted to take into account current or potential risks to the Company and are consistent with the need to retain a strong capital base. Guaranteed incentives do not form part of any compensation package and all incentive systems are non-contractual. Maximum thresholds on fixed and variable remuneration, as well as shareholder compensation, have been established and are monitored by OSFI. During the pandemic, an increase in dividend distribution from the last regularly scheduled dividend prior to March 2020 is not permitted by OSFI.

During 2020, the total amount of all salaries, bonuses and long term incentives and other remuneration for key management and employees whose actions have a material impact on the risk exposure of the Company was $8.4 million (2019: $8.7 million). We do not break down this total between key management and "other risk takers", as all employees who hold material risk positions are in key management roles.

## APPENDIX I – BASEL III COMMON DISCLOSURES AS AT DECEMBER 31, 2020

| | Modified Capital Disclosure Template | (000's) |
|---|---|---|
| | **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 | 26,884 |
| 2 | Retained earnings | 281,339 |
| 3 | Accumulated other comprehensive income (and other reserves) | |
| 4 | *Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)* | |
| 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** | 308,223 |
| | **Common Equity Tier 1 capital: regulatory adjustments** | |
| 28 | Total regulatory adjustments to Common Equity Tier 1 | 2,424 |
| 29 | Common Equity Tier 1 capital (CET1) | 305,799 |
| 29A | Common Equity Tier 1 capital (CET1) with transitional arrangements for ECL provisioning not applied | 304,447 |
| | 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 | *Directly issued capital instruments subject to phase out from Additional Tier 1* | |
| 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* | |
| 36 | **Additional Tier 1 capital before regulatory adjustments** | |
| | **Additional Tier 1 capital: regulatory adjustments** | |
| 43 | Total regulatory adjustments applied to Additional Tier 1 under Basel 3 | |
| 44 | Additional Tier 1 capital (AT1) | |
| 45 | Tier 1 capital (T1 = CET1 + AT1) | 305,779 |
| 45A | Tier 1 capital with transitional arrangements for ECL provisioning not applied. | 304,447 |
| | Tier 2 capital: instruments and allowances | |
| 46 | Directly issued qualifying Tier 2 instruments plus related stock surplus | |
| 47 | Directly issued and capital instruments subject to phase out from Tier 2 | |
| 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* | |
| 50 | Collective allowances | 4,168 |
| 51 | **Tier 2 capital before regulatory adjustments** | 4,168 |
| | Tier 2 capital: regulatory adjustments | |
| 57 | Total regulatory adjustments applied to Tier 2 under Basel 3 | |
| 58 | Tier 2 capital (T2) | 4,168 |
| 59 | Total capital (TC = T1 + T2) | 309,967 |
| 59A | Total capital with transitional arrangements for ECL provisioning not applied | 309,967 |
| 60 | Total risk weighted assets | 1,705,340 |
| 60a | Common Equity Tier 1 (CET1) Capital RWA | |
| 60b | Tier 1 Capital RWA | |
| 60c | Total Capital RWA | |
| | Capital ratios | |

| | | |
|---|---|---|
| 61 | Common Equity Tier 1 (as a percentage of risk weighted assets) | 17.93% |
| 61A | Common Equity Tier 1 with transitional arrangements for ECL provisioning not applied | 17.85% |
| 62 | Tier 1 (as a percentage of risk weighted assets) | 17.93% |
| 62A | Tier 1 Capital Ratio with transitional arrangements for ECL provisioning not applied | 17.85% |
| 63 | Total capital (as a percentage of risk weighted assets) | 18.18% |
| 63A | Total Capital Ratio with transitional arrangements for ECL provisioning not applied | 18.18% |
| | 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* | |
| 81 | *Amount excluded from CET1 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 due to cap (excess over cap after redemptions and maturities)* | |
| 84 | *Current cap on T2 instruments subject to phase out arrangements* | |
| 85 | *Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)* | |

**Memo Item:**

-Line items 28, 43, & 57 aggregate all regulatory adjustments for that particular tier of capital.

## APPENDIX II – LEVERAGE RATIO COMMON DISCLOSURE FOR NON-DSIBs

### As at December 31, 2020

| | Item | Leverage Ratio Framework ($000's) |
|---|---|---|
| | On-balance sheet exposures | |
| 1 | On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral) | 4,582,449 |
| 2 | (Asset amounts deducted in determining Basel III "all-in" Tier 1 capital) | (3,776) |
| 3 | **Total on-balance sheet exposures (excluding derivatives and SFTs)** (sum of lines 1 and 2) | **4,578,673** |
| | Derivative exposures | |
| 4 | Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin) | 298 |
| 5 | Add-on amounts for PFE associated with all derivative transactions | |
| 6 | Gross up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework | |
| 7 | (Deductions of receivables assets for cash variation margin provided in derivative transactions) | |
| 8 | (Exempted CCP-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 4 to 10) | **298** |
| | Securities financing transaction exposures | |
| 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) | |
| | Other off-balance sheet exposures | |
| 17 | Off-balance sheet exposure at gross notional amount | 1,366,771 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (913,147) |
| 19 | **Off-balance sheet items** (sum of lines 17 to 18) | **453,624** |
| | Capital and Total Exposures | |
| 20 | **Tier 1 capital** | **305,799** |
| 20a | **Tier 1 capital with transitional arrangements for ECL provisioning not applied** | **304,447** |
| 21 | **Total Exposures** (sum of lines 3, 11, 16 and19) | **5,032,595** |
| | Leverage Ratios | |
| 22 | **Basel III leverage ratio** | **6.08%** |
| 22a | **Basel III leverage ratio with transitional arrangements for ECL provisioning not applied** | **6.05%** |