Peoples Group

Public Disclosures (Basel III Pillar 3 and Leverage Ratio)

For the year ended December 31, 2023

Public Disclosures (Basel III Pillar 3 and Leverage Ratio)

Objective and background

This document presents the Basel III Pillar 3 and Leverage Ratio disclosures for Peoples Trust Company and its subsidiaries, including Peoples Bank of Canada, Peoples Card Services LP, and Peoples Payment Solutions Ltd (collectively "Peoples Group", "PG" or "the Group"). These disclosures are made pursuant to the Pillar 3 Disclosure Guideline for Small and Medium-Sized Deposit-Taking Institutions ("SMSBs") Capital and Liquidity Requirements of the Office of the Superintendent of Financial Institutions ("OSFI"). Peoples Group is classified as Category II SMSB with total assets less than $10 billion threshold.

Basis of presentation

Information reported in this Public Disclosure Report (Report) are prepared in accordance with the above guideline and Pillar 3 disclosure requirements pertaining to Category II SMSB.

Full qualitative disclosures are provided annually, at the fiscal year end.

Location and verification

This Report is published under the Regulatory Disclosures section of the Group's website.

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

All numbers in this Report are Canadian dollars.

Use of this document

Additional financial data published on OSFI website can also be accessed through the link below.
https://www.osfi-bsif.gc.ca/Eng/wt-ow/Pages/fd-df.aspx

Peoples Group
Fourth Quarter 2023
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Annual Qualitative Disclosure Requirements and Reference

Item #	Annual Qualitative Requirements	Description
CRA	**General qualitative information about credit risk**	
	SMSBs must describe their risk management objectives and policies for credit risk, focusing in particular on:	
(a)	How the business model translates into the components of the SMSB's credit risk profile	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 risk arises primarily from PG's lending activities and treasury operations. PG's primary lending businesses include providing residential and commercial mortgages, commercial loans, consumer loans and credit card solutions. The Company also has investments in lease receivables. Credit concentration risk as a component of credit risk may arise if an excessively large proportion of PG's lending business involves a single person, organization or group of related persons or organizations, a single geographic area, a single industry or a single category of investment. Underwriting and credit risk policies, together with PG's Risk Appetite Framework, are approved by the Board to manage and control PG's loan and leasing portfolios and exposure to credit and concentration risk. Treasury operations include management of PG's investments and liquidity holdings and management of interest rate risk exposures. Counterparty credit risk, may arise from cash and cash equivalents placed with financial institutions and from derivative contracts. Similarly, investments in securities expose PG to credit risk should the issuer of these securities be unable to make timely interest payments or the issuer becomes insolvent. To manage and limit exposure to counterparty credit risk, PG establishes policies with exposure limits based on credit rating, issuer grade and investment type.
(b)	Criteria and approach used for defining credit risk management policy and for setting credit risk limits	PG has a Risk Appetite Framework to define the type and amount of risk the organization is willing to assume through its business activities. Risk appetites for key risk types are established based on quantitative and qualitative factors by Risk Management and other corporate functions as the second line, supported by senior management and approved by the Board of Directors. PG has implemented several risk appetite measures and limits for credit risk. These are monitored and reported to senior management and the Board on a regular basis and are also used to inform the strategic planning process. Credit risk policies are developed by the second line and approved by the Board of Directors that cover the loan approval process, internal quality and compliance programs, risk rating systems, portfolio concentration limits, default management and collections and ongoing monitoring and reporting requirements. PG's underwriting policies place conservative limits on loan to value ratios and geographical and single borrower concentrations. Specific portfolio concentration limits are established with a focus on exposure to certain types of loans and properties. Investment policies only permit Treasury to invest in highly rated or government-backed securities subject to prudent concentration limits. Risk diversification is further addressed by establishing limits for exposure to certain counterparties, industries and market segments. PG monitors credit and counterparty exposures against these limits and prepares reports assessing overall credit risk within PG's lending and investment portfolios. On at least an annual basis, PG completes a review of risk diversification measured against assigned portfolio limits.

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Item #	Annual Qualitative Requirements	Description
CRA	**General qualitative information about credit risk**	
	SMSBs must describe their risk management objectives and policies for credit risk, focusing in particular on:	
(c)	Structure and organization of the credit risk management and control function	PG manages credit risk under the three lines of defence model and oversight is provided by the Risk Committee of the Board. PG's lending business lines assess and manage credit risk as the first line of defence. The credit approval process is centrally controlled with all credit requests that exceed predefined thresholds being submitted to the Chief Credit Officer (CCO) or the Credit Committee for adjudication as the second line of defence. Independent review of the adequacy and effectiveness of governance, risk management and control over credit risk is provided by Internal Audit as the third line of defence. The Risk Committee of the Board delegates discretionary lending limits via the Credit Risk Management Policy which outlines the Loan Approval Process. Requests for credit approval beyond the lending limit of the CCO are referred to the Credit Committee. The Credit Committee approves loans within delegated limits and is responsible for ensuring that appropriate credit standards and guidelines are in place. The Chief Credit Officer (CCO) reports functionally to the CEO and reports quarterly to the Risk Committee of the Board to provide a summary of key information on credit risk, including material credit transactions, compliance with limits, portfolio trends and impaired loans. Core activities within the Credit Risk function as led by the Chief Credit Officer (CCO) include oversight of credit risk management policies, establishment of credit risk appetite and key risk metrics, development of credit risk management processes and tools, quality review, watch list and problem loan management. The function supports a disciplined approach to risk-taking through its responsibilities for transactional approval and portfolio management, credit risk reporting and stress testing.

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Item #	Annual Qualitative Requirements	Description
CRA	**General qualitative information about credit risk**	
	SMSBs must describe their risk management objectives and policies for credit risk, focusing in particular on:	
(d)	Relationships between the credit risk management, risk control, compliance and internal audit functions	As noted under (c), PG manages credit risk under the three lines of defence model. This ensures appropriate accountability for managing credit risk throughout the Group. PG business line leaders are the first line of defence and are primarily accountable for identifying, assessing, managing and reporting risk within their areas of responsibility. The risk oversight or control functions, refers to PG's risk management, compliance, legal and finance functions. These functions are accountable for independently monitoring, measuring, and reporting on risk. The second line of defence roles are also responsible for defining risk tolerances, developing and maintaining policies, and developing risk management methodologies. The Credit Risk function is part of the PG's Risk Management organization and forms the second line of defence. Internal audit as the third line of defence conducts independent risk-based oversight to test and verify the effectiveness of the internal control framework and credit and operational risk management practices and ensure adherence to policy and legislative requirements.
(e)	Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors	The CCO reports quarterly to the Risk Committee of the Board to provide a summary of key information on the credit risk profile of PG, including compliance with limits and risk appetite, portfolio trends and impaired loans, material credit transactions and other risk indicators such as results of quality reviews and stress testing.

Annual Qualitative Disclosure Requirements and Reference

Item #	Annual Qualitative Requirements	Description
ORA	**General qualitative information on a bank's operational risk framework**	
(a)	Their policies, frameworks and guidelines for the management of operational risk.	Operational risk refers to the risk of loss resulting from people, inadequate or failed internal processes and systems or external events. This includes legal risk but excludes strategic and reputational risk. Operational risk is inherent in all of PG's business activities and includes such considerations as fraud, system failures, model risk, cyber security, business continuity and outsourcing/third parties. Although operational risk may not be completely eliminated, proactive management of this risk is important to mitigate exposure to financial losses, reputational damage and/or regulatory fines. PG has an Operational Risk Management policy approved by the Board. PG also has board level policies for Business Continuity Management, Fraud Management, Model Risk Management, Cybersecurity and Outsourcing. These are designed to provide oversight on how operational risk is monitored, reviewed and reported on across the Group. These corporate policies also provide employees with an understanding of their responsibilities with respect to operational risk management and a common language for discussing operational risk and support management as they consider all risks through risk control self-assessments and other risk management processes PG establishes its appetite for operational risk through the Board approved Risk Appetite Framework which includes key risk metrics for managing and monitoring operational risk on an enterprise-wide basis.
(b)	The structure and organization of their operational risk management and control function.	PG manages Operational Risk under the Three Lines of Defence model. Business lines and support areas are the first line of defence and are fully accountable to manage and mitigate the operational risks associated with their activities. Risk Management, as the second line, is responsible for the continual enhancement of the Operational Risk Management policy, related corporate policies and framework and supporting processes and tools to manage operational risk. Risk Management works with other corporate functions including Compliance, Information Technology and Human Resources to coordinate second line oversight of operational risk domains such as regulatory compliance, AML, privacy, information security, cyber security, data management and people risk.

Annual Qualitative Disclosure Requirements and Reference

Item #	Annual Qualitative Requirements	Description
ORA	**General qualitative information on a bank's operational risk framework**	
(c)	Their operational risk measurement system (i.e. the systems and data used to measure operational risk in order to estimate the operational risk capital charge).	As part of PG's Operational Risk Management framework, realized losses attributable to operational risk events are tracked over time and each event is evaluated based on its materiality. In addition to the analysis of realized loss events, the Operational Risk Management framework produces forward looking indicators of operational risk exposure that allow PG to take proactive measures as necessary to appropriately mitigate the risks. PG collects and analyzes data on operational risk events experienced by the organization. An operational risk event is any unexpected loss or gain due to failure of or failure to implement an operational risk control and any situation where an unexpected loss or gain is avoided through action other than the control designed to mitigate it (near misses). Management within the first and second lines of defence are responsible for reporting their operational risk events. In addition to loss data event collection, PG's program for operational risk management and measurement includes the following: • Risk and Control Self-Assessments (RCSAs): These are used on an ongoing basis to identify and assess key operational risks and the effectiveness of controls within businesses and functional units, as well as enterprise-wide. • Key risk indicators (KRIs): PG uses KRIs to monitor the main drivers of operational risk throughout the business and provide insights into how the Group's risk profile changes over time. KRIs are used to identify risk trends and provide triggers for management action and mitigation plans to be undertaken. • Change Management: PG conducts risk assessments whenever there are material changes being implemented in relation to its business, people management, processes, technology or PG experiences a material change in its external environment. • Training: All employees within the organization are required to play a role in managing operational risk. In this regard, PG conducts operational risk management awareness and training for its employees to provide them with an overview of the various types of operational risks, and their respective roles and responsibilities in helping to protect the interests and assets of the Group. The regulatory framework requires an amount of capital to be allocated to support operational risk. PG uses the Simplified Standardized approach to measure the notional risk-weighted assets that are held for operational risk.

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ORA	**General qualitative information on a bank's operational risk framework**	
(d)	The scope and main context of their reporting framework on operational risk to executive management and to the board of directors.	On a quarterly basis, Risk Management provides reporting to senior management and the Risk Committee of the Board on PG's operational risk profile, including operational risk management trends, significant operational events if any and KRIs developed by management.
(e)	The risk mitigation and risk transfer used in the management of operational risk. This includes mitigation by policy (such as the policies on risk culture, risk appetite, and outsourcing), by divesting from high-risk businesses, and by the establishment of controls. The remaining exposure can then be absorbed by the bank or transferred. For instance, the impact of operational losses can be mitigated with insurance.	PG maintains additional policies aligned with the second line Operational Risk Management policy to manage and mitigate specific types of operational risks. These include: Outsourcing / Third Party Risk: PG's approach to outsourcing and third party risk mitigation is outlined in policies that establish the minimum requirements for identifying and managing risks throughout the engagement life cycle with a third party. PG continues to evolve and improve its capabilities in this area and is implementing enhancements aligned with the revised regulatory requirements of OSFI's B-10 Third-Party Risk Management. Business Continuity Management: PG maintains a business continuity management policy and program to ensure the Group has the ability to manage and recover critical operations and processes in the event of a business disruption. A cornerstone of the business continuity program is for all business areas within the Group to maintain and update business impact assessments annually. Fraud Risk: PG's Fraud Management policy and framework outlines the Group's enterprise-wide approach to managing fraud risk within PG's fraud risk appetite. PG has established tools and processes to support the identification, assessment, measurement and mitigation of fraud risk and help protect customers, shareholders and employees from fraud risk. Information and Cyber Security Risk: PG is focused on the protection of its operations, customers and data from attack and works with security and software suppliers to ensure that its technology capabilities remain resilient and effective. As part of PG's Risk Appetite Framework, KRIs have been established to measure, monitor and report this risk to the Risk Committee on a periodic basis. PG continues to enhance its processes to align with the changing regulatory environment including OSFI's B-13 Technology and Cyber Risk Management Guideline and OSFI's Integrity and Security Guideline.

KM1: Key metrics (at consolidated group level)

		a	b	c	d	e
		Q4 2023 Basel III	Q3 2023 Basel III	Q2 2023 Basel III	Q1 2023 Basel III	Q4 2022 Basel III
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	390,793	389,645	384,327	372,827	365,611
2	Tier 1	390,929	389,645	384,327	372,827	365,611
3	Total capital	402,868	407,238	390,664	379,137	371,441
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	2,584,239	2,410,258	2,289,866	2,281,215	2,514,394
4a	Total risk-weighted assets (pre-floor)	2,584,239	2,410,258	2,289,866	2,281,215	2,514,394
	Risk-based capital ratios as a percentage of RWA					
5	CET1 ratio (%)	15.12%	16.17%	16.78%	16.34%	14.54%
5a	CET1 ratio (%) (pre-floor ratio)	15.12%	16.17%	16.78%	16.34%	14.54%
6	Tier 1 ratio (%)	15.13%	16.17%	16.78%	16.34%	14.54%
6a	Tier 1 ratio (%) (pre-floor ratio)	15.13%	16.17%	16.78%	16.34%	14.54%
7	Total capital ratio (%)	15.59%	16.90%	17.06%	16.62%	14.77%
7a	Total capital ratio (%) (pre-floor ratio)	15.59%	16.90%	17.06%	16.62%	14.77%
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0%	0%	0%	0%	0%
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)	2.50%	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	8.12%	9.17%	9.78%	9.34%	7.54%
	Basel III Leverage ratio					
13	Total Basel III leverage ratio exposure measure	8,765,591	8,227,605	7,494,983	6,468,045	6,777,627
14	Basel III leverage ratio (row 2 / row 13)	4.46%	4.74%	5.13%	5.76%	5.39%

Modified CC1: Composition of regulatory capital for SMSBs

		a	B	c	d	e
		Q4 2023 Basel III	Q3 2023 Basel III	Q2 2023 Basel III	Q1 2023 Basel III	Q4 2022 Basel III
	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	66,886	26,884	26,884	26,884	26,884
2	Retained earnings	340,957	380,697	374,522	361,450	351,792
3	Accumulated other comprehensive income (and other reserves)	-	-	-	-	-
4	*Directly issued capital subject to phase out from CET1 (only applicable to Federal Credit Unions)*	-	-	-	-	-
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**	407,843	407,581	401,406	388,334	378,676
	Common Equity Tier 1 capital: regulatory adjustments					
28	**Total regulatory adjustments to Common Equity Tier 1**	17,050	17,936	17,079	15,507	13,065
29	**Common Equity Tier 1 capital (CET1)**	390,793	389,645	384,327	372,827	365,611
	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 (applicable only to Federal Credit Unions)*	-	-	-	-	-
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)**	136	-	-	-	-
45	**Tier 1 capital (T1 = CET1 + AT1)**	390,929	389,645	384,327	372,827	365,611
	Tier 2 capital: instruments and provisions					
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-	-	-	-
47	*Directly issued capital instruments subject to phase out from Tier 2 (applicable only to Federal Credit Unions)*	-	-	-	-	-
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)	28	-	-	-	-
49	*of which: instruments issued by subsidiaries subject to phase out (applicable only to Federal Credit Unions)*	-	-	-	-	-
50	Collective allowances	11,911	17,593	6,337	6,310	5,830
51	**Tier 2 capital before regulatory adjustments**	11,939	17,593	6,337	6,310	5,830
	Tier 2 capital: regulatory adjustments					
57	**Total regulatory adjustments to Tier 2 capital**	-	-	-	-	-
58	**Tier 2 capital (T2)**	11,939	17,593	6,337	6,310	5,830
59	**Total capital (TC = T1 + T2)**	402,868	407,238	390,664	379,137	371,441
60	**Total risk-weighted assets**	2,584,239	2,410,258	2,289,866	2,281,215	2,514,394
	Capital ratios					
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	15.12%	16.17%	16.78%	16.34%	14.54%
62	Tier 1 (as a percentage of risk-weighted assets)	15.13%	16.17%	16.78%	16.34%	14.54%
63	Total capital (as a percentage of risk-weighted assets)	15.59%	16.90%	17.06%	16.62%	14.77%
	OSFI target					
69	Common Equity Tier 1 target ratio	7.00%	7.00%	7.00%	7.00%	7.00%
70	Tier 1 capital target ratio	8.50%	8.50%	8.50%	8.50%	8.50%
71	Total capital target ratio	10.50%	10.50%	10.50%	10.50%	10.50%
	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)	-	-	-	-	-

LR2: Leverage ratio common disclosure

		a	B	c	d	e
		Q4 2023 Basel III	Q3 2023 Basel III	Q2 2023 Basel III	Q1 2023 Basel III	Q4 2022 Basel III
On-balance sheet exposures						
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	$7,709,051	$6,794,875	$6,286,345	$5,615,017	$6,035,896
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)	(17,050)	(17,936)	(17,079)	(15,507)	(13,736)
5	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 to 4)**	**7,692,001**	**6,776,939**	**6,269,266**	**5,599,510**	**6,022,160**
Derivative exposures						
6	Replacement cost associated with all derivative transactions	13,427	43,397	29.014	9,346	18,641
7	Add-on amounts for potential future exposure associated with all derivative transactions	-	-	-	-	-
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)**	**13,427**	**43,397**	**29,014**	**9,346**	**18,641**
Securities financing transaction exposures						
12	Gross SFT assets recognised for accounting purposes (with no recognition of netting), after adjusting for sale accounting transactions	48,333	170,048	163,299	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-	-	-	-
14	Counterparty credit risk (CCR) exposure for SFTs	(351)	(98)	206	-	-
15	Agent transaction exposures	-	-	-	-	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	47,982	169,950	163,505	**-**	**-**
Other off-balance sheet exposures						
17	Off-balance sheet exposure at gross notional amount	2,922,179	3,160,802	2,582,997	2,315,542	1,937,819
18	(Adjustments for conversion to credit equivalent amounts)	(1,909,998)	(1,923,483)	(1,549,798)	(1,456,353)	(1,200,993)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**1,012,181**	**1,237,319**	**1,033,199**	**859,189**	**736,827**
Capital and total exposures						
20	**Tier 1 capital**	$ 390,929	$ 389,645	$ 384,327	$ 372,827	$ 365,611
21	**Total Exposures (sum of lines 5, 11, 16 and 19)**	$ 8,765,591	$ 8,227,705	$ 7,494,777	$ 6,468,045	$ 6,777,627
Leverage ratio						
22	**Basel III leverage ratio**	4.46%	4.74%	5.13%	5.76%	5.39%