BASEL III PILLAR 3 DISCLOSURES REPORT

For the Quarter Ended October 31, 2023

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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.

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)	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022
	Available Capital (amounts					
1	Common Equity Tier 1 (CET1)	10,599	11,996	12,840	13,109	12,506
2	Tier 1 Capital	10,599	11,996	12,840	13,109	12,506
3	Total Capital	15,599	16,996	17,840	18,109	17,506
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	51,218	50,586	46,465	47,501	40,334
	Risk-based capital ratios as a percentage of RWA					
5	CET1 ratio (%)	20.7%	23.7%	27.6%	27.6%	31.0%
6	Tier 1 ratio (%)	20.7%	23.7%	27.6%	27.6%	31.0%
7	Total capital ratio (%)	30.5%	33.6%	38.4%	38.1%	43.4%
	Additional CET1 buffer requirements as a percentage of RWA					
12	CET1 available after meeting the bank's minimum capital requirements (%)	4.7%	7.7%	11.6%	11.6%	15.0%
	Basel III Leverage ratio					
13	Total Basel III leverage ratio exposure measure	72,974	79,478	87,181	80,096	57,112
14	Basel III leverage ratio (row 2 / row 13)	14.5%	15.1%	14.7%	16.4%	22.0%

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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	(291)
3	Accumulated other comprehensive income (and other reserves)	
6	**Common Equity Tier 1 capital before regulatory adjustments**	**15,909**
	Common Equity Tier 1 capital: regulatory adjustments	
28	**Total regulatory adjustments to Common Equity Tier 1**	**5,309**
29	**Common Equity Tier 1 capital (CET1)**	**10,600**
	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	
36	**Additional Tier 1 capital before regulatory adjustments**	
	Additional Tier 1 capital: regulatory adjustments	
43	**Total regulatory adjustments to additional Tier 1 capital**	0
44	**Additional Tier 1 capital (AT1)**	0
45	**Tier 1 capital (T1 = CET1 + AT1)**	**10,600**
	Tier 2 capital: instruments and provisions	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	5,000
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)	15,600
60	Total risk-weighted assets	51,220
	Capital ratios	
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	20.7%
62	Tier 1 (as a percentage of risk-weighted assets)	20.7%
63	Total capital (as a percentage of risk-weighted assets)	30.5%
	OSFI target	
69	Common Equity Tier 1 target ratio	
70	Tier 1 capital target ratio	
71	Total capital target ratio	

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Risk Management Objectives, Structure and Policies

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.

In thousands of Canadian dollars		Replacement cost	Potential future exposure	Effective EPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (for derivatives)	3,937	5,241	-	1.4	12,849	2,570
6	**Total**	3,937	5,241	-	-	12,849	2,570

Risk weight→	**0%**	**10%**	**20%**	**30%**	**40%**	**50%**	**75%**	**80%**	**85%**	**100%**	**130%**	**150%**	**Others**	**Total credit exposure**
Regulatory portfolio↓														
Sovereigns														
Banks			12,849											2,570
Other assets														
Total														

Credit Risk

EBC is exposed to credit risk in each of its business segments. In both the Banknotes and Payments lines of business, transactions that are settled by Pre-Authorized Debit ("PAD") are subject to being returned for insufficient funds or being recalled at the request of the client within ten days, according to Payments Canada rules. By default, customers are not granted any credit. Clients that would like to settle via PAD must complete a credit application. The maximum amount for a PAD transaction is $1 million by Credit Risk Policy. 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. Credit is granted within EBC's risk appetite, and credit limits greater than $350,000 for any client are subject to more strenuous criteria. EBC has a delegated authority in place for Credit Risk managers, the Chief Risk Officer ("CRO"), the Management Risk Committee ("MRC"), and the Risk Committee of the Board of Directors ("RC"). EBC has a handful of clients with credit in excess of its annual credit loss appetite of $500,000. These accounts have strong financial positions, supported by audited financial statements, and undergo periodic enhanced monitoring.

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

For the Banknotes line of business, EBC is also exposed to market risk through the inventory that it carries to support expected demand. 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

The Bank has access to interest-bearing financial instruments in cash and lines of credit. 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 steady and within liquidity buffers, 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") of 120% or greater (higher than the regulatory mandated 100%), which measures the proportion of unencumbered highly liquid assets to short-term net cash outflows, and setting a minimum liquidity balance requirement of total available cash or undrawn lines of credit to be greater than $4,000,000 notional daily. 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 has developed an operational risk management program designed to identify and improve internal processes, people and systems that cause or have the potential to cause a financial loss. The program relies on the first line of defense to report operational risk events that are reviewed by the MRC each month. Remediation is a key element of the MRC and has allowed EBC to identify many areas for improvement. The area that has the potential for a material loss is related to Payment operations, should a payment be sent to the wrong beneficiary, counterparty or be sent prior to receiving the funds from a client. Controls have been developed to mitigate this from happening and the residual risk of loss is extremely low. EBC monitors the number of operational risk events occurring in the reported period which have been confirmed material by the MRC. Operational risk events are discussed monthly in the MRC meetings and are monitored in the quarterly CRO reports to the Risk Committee. The CRO report includes all reportable operational risk events that are confirmed material during the period. There have been several reportable operational risk events in Fiscal 2023. These have largely been opportunities for improvement to EBC's internal processes and customer service. On a quarterly basis, the RWA calculation, applies the SSA to calculate the RWA for operational risk.

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;
- 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;

- 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.

Previous rolling 12 fiscal quarters (in thousands of Canadian dollars)	**Year 3 (*most recent*)**	**Year 2**	**Year 1**
Lesser of:			
(i) the absolute value of net interest income, and	329		
(ii) 2.25% of interest earning assets	819		
The lesser of the absolute value of net interest income and 2.25% of interest earning assets	329		
Dividend income			
The absolute value of fee and commission income	23,089		
The absolute value of other income	65		
The absolute value of net profit/loss (trading book)			
The absolute value of net profit/loss (banking book)	3,040		
Annual Adjusted Gross Income (“AGI”)	26,523	23,678	12,103
	15%	15%	15%
15% of average annual AGI	3,115	3,552	1,816
Beta (b) factor	12.5	12.5	12.5
RWA for operational risk	38,938	44,396	22,693

Leverage Ratio

In thousands of Canadian dollars		Q4 2023	Q3 2023
On-balance sheet exposures			
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	65,435	70,455
4	(Asset amounts deducted in determining Tier 1 capital)	5,309	5,610
5	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 to 4)**	60,126	64,845
Derivative exposures			
6	Replacement cost associated with all derivative transactions	3,937	3,596
7	Add-on amounts for potential future exposure associated with all derivative transactions	8,912	11,037
11	**Total derivative exposures (sum of lines 6 to 10)**	12,849	14,633
Capital and total exposures			
20	**Tier 1 capital**	10,600	11,996
21	**Total Exposures (sum of lines 5, 11, 16 and 19)**	72,975	79,478
Leverage ratio			
22	**Basel III leverage ratio**	14.5%	15.1%