



## **Basel III Pillar 3 Disclosures**

**October 31, 2025**

# **First Nations Bank of Canada**

## **Basel III Pillar 3 Disclosures**

For the quarter ended October 31, 2025

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### **Overview**

First Nations Bank of Canada is a bank domiciled in Canada. The Bank was incorporated under the Bank Act [1992 as amended] by Letters Patent dated November 19, 1996. The Bank's registered office is on the Yellow Quill First Nation at 224 4<sup>th</sup> Avenue South, Saskatoon, Saskatchewan. The Bank is primarily involved in providing financial services to the Indigenous marketplace in Canada. The Bank has one wholly owned subsidiary, FNB Trust, and all operations are conducted in Canada.

### **Basis of preparation**

These disclosures represent the Basel III Pillar 3 disclosures for the Bank. These disclosures are made pursuant to the Office of the Superintendent of Financial Institutions (OSFI) requirements, which are based on global standards established by the Bank of International Settlements, Basel Committee on Banking Supervision (BCBS). The Bank follows the Pillar 3 Disclosure requirements for Small and Medium-Sized Banks (SMSBs) and is classified as a Category 2 SMSB.

The amounts disclosed in this document are based on the Bank's consolidated interim financial statements, which reflect the financial position and results of operations of the Bank consolidated with the financial position and results of operations of its wholly owned subsidiary, FNB Trust. The consolidated interim financial statements were prepared in accordance with International Accounting Standard (IAS) 34. The consolidated interim financial statements follow the same accounting policies and methods of computation as in the Bank's most recent annual financial statements including the accounting requirements specified by OSFI, and reflect, where necessary, management's best estimates and judgments.

### **Capital and Capital Management**

Capital and leverage ratios were calculated using the Basel III framework. Regulatory capital includes Common Equity Tier 1 (CET1), additional Tier 1 and Tier 2 capital. CET1 capital mainly consists of common shares, retained earnings and other components of equity. Tier 1 capital comprises predominantly CET1, with additional items that consist of capital instruments such as certain preferred shares. Tier 2 capital includes subordinated debentures that meet certain criteria and certain loan loss allowances. Total Capital is the sum of CET1, additional Tier 1 and Tier 2 capital.

Regulatory adjustments under Basel III include full deductions of intangibles, certain deferred tax assets, and non-significant investments in banking, financial and insurance entities.

Regulatory capital ratios are calculated by dividing Tier 1 capital by risk-weighted assets. The Bank's assets, by classes, are risk weighted, with additional consideration given to the Bank's

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operational risk, relying on the Simplified Standardized Approach to quantify operational risk. OSFI provides two approaches to determining credit risk, those being the Standardized Approach versus the Internal Ratings Based Approach, with the Bank following the former.

OSFI formally establishes risk-based capital targets for deposit-taking institutions in Canada. These targets are currently a CET1 Ratio of greater than or equal to 7.0% and Tier 1 ratio of greater than or equal to 8.5%, and a Total capital ratio of greater than or equal to 10.5%. In addition, Canadian banks are required to ensure that their leverage ratio, which is calculated by dividing Total capital by Total assets, does not fall below a minimum, as prescribed by OSFI for each bank individually. During 2025 and 2024 we have complied with all internal and capital requirements of OSFI.

The Bank is privately held, and issues only one class of capital to a private shareholder, and as such any further disclosure of the terms and conditions of all capital instruments is not relevant.

This report is unaudited and is reported in thousands of Canadian dollars, unless otherwise noted.

The report is available in the Regulatory section of the Bank's website at [www.fnbc.ca](http://www.fnbc.ca) and on OSFI's Financial Data for Banks website [Financial data - Office of the Superintendent of Financial Institutions \(osfi-bsif.gc.ca\)](http://Financial%20data%20-%20Office%20of%20the%20Superintendent%20of%20Financial%20Institutions%20(osfi-bsif.gc.ca))

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### Template KM1: Key metrics (at consolidated group level)

**Purpose:** To provide an overview of an SMSB's prudential regulatory metrics.

**Content:** Key prudential metrics related to risk-based capital ratios, leverage ratio and liquidity standards. SMSBs are required to disclose each metric's value using the corresponding standard's specifications for the reporting period-end (designated by T in the template below) as well as the four previous quarter-end figures (T-1 to T-4). All metrics are intended to reflect actual bank values for (T), with the exception of "fully loaded expected credit losses (ECL)" metrics, the leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) and metrics designated as "pre-floor" which may not reflect actual values.

**Frequency:** Quarterly.

**Format:** Fixed. If SMSBs wish to add rows to provide additional regulatory or financial metrics, they must provide definitions for these metrics and a full explanation of how the metrics are calculated (including the scope of consolidation and the regulatory capital used if relevant). The additional metrics must not replace the metrics in this disclosure requirement.

**Accompanying narrative:** Category 1 SMSBs only are expected to supplement the template with a narrative commentary to explain any significant change in each metric's value compared with previous quarters, including the key drivers of such changes (eg whether the changes are due to changes in the regulatory framework, group structure or business model).

		a	b	c	d	e
		T	T-1	T-2	T-3	T-4
	<b>Available capital (amounts)</b>					
1	Common Equity Tier 1 (CET1)	110,714	100,385	93,598	87,677	85,869
2	Tier 1	110,714	100,385	93,598	87,677	85,869
3	Total capital	110,714	100,385	93,598	87,677	85,869
	<b>Risk-weighted assets (amounts)</b>					
4	Total risk-weighted assets (RWA)	687,921	674,306	666,459	592,459	613,588
4a	Total risk-weighted assets (pre-floor)	687,921	674,306	666,459	592,459	613,588
	<b>Risk-based capital ratios as a percentage of RWA</b>					
5	CET1 ratio (%)	16.09%	14.89%	14.04%	14.80%	13.99%
5a	CET1 ratio (%) (pre-floor ratio)	16.09%	14.89%	14.04%	14.80%	13.99%
6	Tier 1 ratio (%)	16.09%	14.89%	14.04%	14.80%	13.99%
6a	Tier 1 ratio (%) (pre-floor ratio)	16.09%	14.89%	14.04%	14.80%	13.99%
7	Total capital ratio (%)	16.09%	14.89%	14.04%	14.80%	13.99%
7a	Total capital ratio (%) (pre-floor ratio)	16.09%	14.89%	14.04%	14.80%	13.99%
	<b>Additional CET1 buffer requirements as a percentage of RWA</b>					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.5%	2.5%	2.5%	2.5%	2.5%
9	Countercyclical buffer requirement (%)	0.0%	0.0%	0.0%	0.0%	0.0%
10	Bank G-SIB and/or D-SIB additional requirements (%) <b>[Not applicable for SMSBs]</b>					
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.5%	2.5%	2.5%	2.5%	2.5%
12	CET1 available after meeting the bank's minimum capital requirements (%)	13.59%	12.39%	11.54%	12.30%	11.49%
	<b>Basel III Leverage ratio</b>					
13	Total Basel III leverage ratio exposure measure	1,432,202	1,501,902	1,494,662	1,280,857	1,258,353
14	Basel III leverage ratio (row 2 / row 13)	7.73%	6.68%	6.26%	6.85%	6.82%

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### Modified CC1 – Composition of capital for SMSBs

**Purpose:** Provide a breakdown of the constituent elements of an SMSB's capital.

**Content:** Breakdown of regulatory capital according to the scope of regulatory consolidation

**Frequency:** Quarterly.

**Format:** Fixed.

**Accompanying narrative:** Category 1 SMSBs are expected to supplement the template with a narrative commentary to explain any significant changes over the reporting period and the key drivers of such change.

		a
		Amounts
	<b>Common Equity Tier 1 capital: instruments and reserves</b>	
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	60,890
2	Retained earnings	50,164
3	Accumulated other comprehensive income (and other reserves)	9
4	<i>Directly issued capital subject to phase out from CET1 (only applicable to Federal Credit Unions)</i>	0
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	0
6	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	111,063
	<b>Common Equity Tier 1 capital: regulatory adjustments</b>	
28	<b>Total regulatory adjustments to Common Equity Tier 1</b>	-349
29	<b>Common Equity Tier 1 capital (CET1)</b>	110,714
	<b>Additional Tier 1 capital: instruments</b>	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	0
31	of which: classified as equity under applicable accounting standards	0
32	of which: classified as liabilities under applicable accounting standards	0
33	<i>Directly issued capital instruments subject to phase out from Additional Tier 1 (applicable only to Federal Credit Unions)</i>	0
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)	0
35	<i>of which: instruments issued by subsidiaries subject to phase out (applicable only to Federal Credit Unions)</i>	0
36	<b>Additional Tier 1 capital before regulatory adjustments</b>	0
	<b>Additional Tier 1 capital: regulatory adjustments</b>	
43	<b>Total regulatory adjustments to additional Tier 1 capital</b>	0
44	<b>Additional Tier 1 capital (AT1)</b>	0
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	110,714
	<b>Tier 2 capital: instruments and provisions</b>	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	0
47	<i>Directly issued capital instruments subject to phase out from Tier 2 (applicable only to Federal Credit Unions)</i>	0
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)	0
49	<i>of which: instruments issued by subsidiaries subject to phase out (applicable only to Federal Credit Unions)</i>	0
50	Collective allowances	0
51	<b>Tier 2 capital before regulatory adjustments</b>	0
	<b>Tier 2 capital: regulatory adjustments</b>	
57	<b>Total regulatory adjustments to Tier 2 capital</b>	0
58	<b>Tier 2 capital (T2)</b>	0
59	<b>Total capital (TC = T1 + T2)</b>	110,714
60	<b>Total risk-weighted assets</b>	687,921
	<b>Capital ratios</b>	
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	16.09%
62	Tier 1 (as a percentage of risk-weighted assets)	16.09%
63	Total capital (as a percentage of risk-weighted assets)	16.09%
	<b>OSFI target</b>	
69	Common Equity Tier 1 target ratio	7.00%
70	Tier 1 capital target ratio	8.50%
71	Total capital target ratio	10.50%
	<b>Capital instruments subject to phase-out arrangements (For Federal Credit Unions only)</b>	
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)	

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### Template LR2: Leverage ratio common disclosure template

**Purpose:** To provide a detailed breakdown of the components of the leverage ratio denominator, as well as information on the actual leverage ratio, minimum requirements and buffers.

**Content:** Quantitative information.

**Frequency:** Quarterly.

**Format:** Fixed.

**Accompanying narrative:** Category 1 SMSBs must describe the key factors that have had a material impact on the leverage ratio for this reporting period compared with the previous reporting period.

		a	b
		T	T-1
<b>On-balance sheet exposures</b>			
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	1,397,228	1,477,773
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)	(349)	(385)
5	<b>Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 to 4)</b>	1,396,879	1,477,388
<b>Derivative exposures</b>			
6	Replacement cost associated with all derivative transactions	722	-
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	<b>Total derivative exposures (sum of lines 6 to 10)</b>	722	-
<b>Securities financing transaction exposures</b>			
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	<b>Total securities financing transaction exposures (sum of lines 12 to 15)</b>	-	-
<b>Other off-balance sheet exposures</b>			
17	Off-balance sheet exposure at gross notional amount	123,173	30,814
18	(Adjustments for conversion to credit equivalent amounts)	(88,572)	(6,300)
19	<b>Off-balance sheet items (sum of lines 17 and 18)</b>	34,601	24,514
<b>Capital and total exposures</b>			
20	<b>Tier 1 capital</b>	110,714	100,385
21	<b>Total Exposures (sum of lines 5, 11, 16 and 19)</b>	1,432,202	1,501,902
<b>Leverage ratio</b>			
22	<b>Basel III leverage ratio</b>	7.73%	6.68%

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### Table CVAA: General qualitative disclosure requirements related to CVA

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**Purpose:** To provide a description of the risk management objectives and policies for CVA risk.

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**Scope of application:** The table is mandatory for all SMSBs, including SMSBs which are qualified and have elected to set its capital requirement for CVA at 100% of its counterparty credit risk charge.

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**Content:** Qualitative information.

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**Frequency:** Annual.

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**Format:** Flexible.

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SMSBs must describe their risk management objectives and policies for CVA risk as follows:

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|-----|--|
| (a) | An explanation and/or a description of the SMSB's processes implemented to identify, measure, monitor and control the SMSB's CVA risks, including policies for hedging CVA risk and the processes for monitoring the continuing effectiveness of hedges. |
| (b) | Whether the bank is eligible and has chosen to set its capital requirement for CVA at 100% of the bank's capital requirement for counterparty credit risk as applicable under [CAR 2024, Chapter 8, paragraph 9].  |
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Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default. The market value is uncertain and can vary over time with the movement of the underlying market factors. The Bank's counterparty credit risk exposure arises from the Bank's execution of derivative hedge transactions with other financial institutions.

The Bank records counterparty credit valuation adjustments (CVA) on derivative assets to reflect the credit quality of counterparties. CVA risk is defined as the risk of losses arising from changes in counterparty credit spreads and other market risk factors that impact prices of derivative transactions. The Bank monitors these exposures regularly, with oversight by the Asset and Liability Committee (ALCO).

The Bank calculates its CVA using the reduced basic approach (BA) and considers legally enforceable master netting agreements that mitigate credit exposure to each counterparty in determining CVAs, which may be adjusted due to changes in the fair values of its interest rate swaps, collateral and creditworthiness of the counterparty.

The Bank is below the materiality threshold specified in the OSFI Capital Adequacy Guidelines and is eligible to set the capital requirement at 100% for counterparty credit risk. The Bank has, however, implemented the reduced version Basic Approach to calculate CVA.

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### Template CVA1: The reduced basic approach for CVA (BA-CVA)

**Purpose:** To provide the components used for the computation of capital requirements under the reduced BA-CVA for CVA risk.

**Scope of application:** The template is mandatory for SMSBs having part or all of their capital requirements for CVA risk measured according to the reduced BA-CVA. The template should be completed with only the amounts obtained from the netting sets which are under the reduced BA-CVA.

**Content:** Capital requirements.

**Frequency:** Quarterly.

**Format:** Fixed.

**Accompanying narrative:** SMSBs must describe the types of hedge they use even if they are not taken into account under the reduced BA-CVA.

		a	b
		Components	Capital requirements under BA-CVA
1	Aggregation of systematic components of CVA risk	48	
2	Aggregation of idiosyncratic components of CVA risk	48	
3	<b>Total</b>		31

The Bank uses interest rate swaps to hedge interest rate volatility and interest rate risk in the banking book.



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### Table CRA: General qualitative information about credit risk

**Purpose:** Describe the main characteristics and elements of credit risk management (business model and credit risk profile, organisation and functions involved in credit risk management, risk management reporting).

**Content:** Qualitative information.

**Frequency:** Annual.

**Format:** Flexible.

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  |
| (b) | Criteria and approach used for defining credit risk management policy and for setting credit risk limits   |
| (c) | Structure and organisation of the credit risk management and control function  |
| (d) | Relationships between the credit risk management, risk control, compliance and internal audit functions  |
| (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 |

### Purpose

This disclosure describes the main characteristics and elements of FNBC's credit risk management framework, including the business model and credit risk profile, organization and functions involved in credit risk management, and credit risk management reporting.

### (a) Business Model and Credit Risk Profile

First Nations Bank of Canada's (FNBC) credit risk profile directly reflects its business model and mandate to serve First Nations, Inuit, and Métis governments, economic development entities, and commercial enterprises that support Indigenous and adjacent communities across Canada.

FNBC's lending activities are primarily concentrated in:

- First Nation governments, including community infrastructure, housing, and capital projects;
- First Nation economic development corporations and community-owned businesses; and
- Commercial enterprises operating within or alongside Indigenous markets.

The Bank's business model emphasizes prudent, relationship-based lending founded on local knowledge and a deep understanding of Indigenous community economics and governance. This approach yields a credit risk profile characterized by:

- Concentrations in Indigenous government and community lending supported by predictable transfer payments and revenue streams;
- Moderate exposure to commercial real estate, construction, and small business sectors in regional markets;

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- A focus on borrowers with stable and recurring cash flows, often underpinned by long-term agreements with federal, provincial, or territorial governments; and
- Conservative underwriting standards, comprehensive due diligence, and proactive portfolio monitoring.

Credit risk exposures are diversified by geography, borrower type, and sector within the Bank's defined risk appetite. The Bank regularly conducts portfolio and stress-testing analyses to assess resilience under adverse scenarios and to ensure capital adequacy under the standardized approach.

### **Collateral and Credit Risk Mitigation**

FNBC uses collateral and third-party guarantees to mitigate potential losses in the event of default. Common collateral includes real estate, accounts receivable, and cash deposits. The Bank applies periodically re-assesses and monitors margining of accounts receivables and periodically reviews real estate collateral value.

The Bank also utilizes a range of credit risk mitigants and guarantee programs, including:

- Export Development Canada (EDC) export and working-capital guarantee programs;
- Business Development Bank of Canada (BDC) co-lending and guarantee programs supporting SME and Indigenous financing;
- Canada Infrastructure Bank (CIB) participation or credit enhancement for eligible infrastructure projects; and
- Provincial or regional Indigenous economic development guarantee programs, where available.

Guarantees and insurance are recognized in risk assessment only when legally enforceable.

### **(b) Credit Risk Management Policy and Limits**

FNBC's Credit Risk Management Policy establishes the principles, standards, and processes governing all credit exposures. The policy is approved by the Board of Directors on recommendation of the Audit and Risk Management Committee (ARMC) and reviewed at least annually.

Credit related policies are designed to ensure that lending activities align with the Bank's strategy and risk appetite. Key elements include minimum underwriting and due-diligence standards; clear approval authorities and delegated lending limits; portfolio concentration limits by counterparty, sector, and geography; requirements for collateral valuation and re-valuation frequency and guidelines for use of guarantees, insurance, and other credit risk mitigants.

Discretionary lending limits are assigned based on exposure size, risk profile, and loan type (retail), and are reviewed periodically to reflect changes in the Bank's capital base and risk tolerance. Loans exceeding the CEO's limits are escalated to the Credit Committee.

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For commercial loans, the Bank employs standardized, risk-sensitive credit rating tools to support consistent and objective borrower assessment:

- The Commercial Scoring Model applies to non-Indigenous commercial borrowers and First Nation economic development entities. It combines quantitative financial metrics with qualitative assessments of management quality, business position, and industry risk.
- The Financial Summary (FINSUM) Model applies to First Nation governments and not-for-profit borrowers. It emphasizes financial capacity, governance, reporting quality, and management practices.

Each borrower receives a Borrower Risk Rating (BRR) mapped to categories ranging from *Satisfactory* (0–5) through *Watch* (6) to *Classified* (7–9). The BRR informs credit decisions, portfolio monitoring, pricing, and provisioning. Credit officers may exercise expert judgment to adjust ratings with appropriate justification and approval.

Credit risk limits and tolerances are reviewed annually by the Credit Committee and approved by the ARMC to ensure alignment with the Bank's strategic objectives and capital capacity.

### **(c) Structure and Organization of Credit Risk Management Function**

Credit risk management is an independent control function reporting to the Chief Risk Officer (CRO), who in turn reports directly to the CEO and ARMC.

The Credit Risk Management Department, led by the Chief Credit Risk Officer, provides independent review and challenge of credit proposals, monitors portfolio quality, and oversees adherence to policy and risk limits. Relationship managers within the business units are responsible for origination and ongoing client relationship management, while the credit risk function provides independent adjudication and portfolio oversight.

The Credit Committee, reports to the ARMC, and is composed of independent directors and senior executives. It reviews exposures that exceed delegated limits, provides oversight of credit exposures, and recommends policies and limits to the ARMC. The Committee has the authority to engage independent advisors as required.

### **(d) Relationships between Credit Risk Management, Compliance, and Internal Audit**

Credit Risk Management operates independently of revenue-generating units and works in close coordination with the Risk Management, Compliance and Internal Audit functions to ensure a comprehensive and consistent approach to risk governance.

- **Credit Risk Management** independently monitors and reviews credit proposals above business delegated limits, monitors aggregate exposures, risk appetite metrics, and early-warning indicators, monitors policy adherence and provides independent reporting to senior management

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and the Credit Committee. Credit risk management operates within the Bank's broader enterprise risk management framework under the oversight of the Chief Risk Officer (CRO). The CRO ensures that credit risk processes are integrated with capital, liquidity, and other risk frameworks (e.g., enterprise and operational risk).

- **Compliance** monitors adherence to applicable laws, regulations including anti-money-laundering and lending-to-related-parties requirements.
- **Internal Audit** periodically reviews the design and effectiveness of credit risk governance and controls. Findings and recommendations are reported to the ARMC for oversight and remediation tracking.

This "three lines of defense" structure promotes transparency, accountability, and independence in credit risk oversight.

### (e) Credit Risk Reporting and Governance

Comprehensive credit risk reporting supports effective oversight by executive management and the Board. Regular reports are provided to the Credit Committee, CRO, and ARMC, covering:

- Portfolio composition and credit concentration by sector, geography, and borrower type;
- Risk-rating distribution, migration trends, and watch-list exposures;
- Credit losses, allowances for expected credit losses (ECL), and provisioning trends;
- Large-exposure and related-party lending; and
- Stress-testing and scenario analysis outcomes.

Management also provides periodic thematic analyses of lending to Indigenous governments and economic development entities, highlighting risk characteristics, collateral coverage, and the role of third-party guarantees (e.g., federal, provincial, BDC, EDC, or other government-backed programs) that mitigate potential credit losses.

Reports are reviewed quarterly by the Credit Committee and subsequently by the ARMC to ensure adherence to policy and to support informed strategic and capital decisions.

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Table ORA: General qualitative information on a bank's operational risk framework

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**Purpose:** To describe the main characteristics and elements of a bank's operational risk management framework.

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**Content:** Qualitative information.

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**Frequency:** Annual.

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**Format:** Flexible.

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SMSBs must describe:

- (a) Their policies, frameworks and guidelines for the management of operational risk.
  - (b) The structure and organization of their operational risk management and control function.
  - (c) Their operational risk measurement system (ie the systems and data used to measure operational risk in order to estimate the operational risk capital charge).
  - (d) The scope and main context of their reporting framework on operational risk to executive management and to the board of directors.
  - (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.
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### (a) Policies, Frameworks and Guidelines

The Bank's Enterprise Risk Management (ERM) framework includes principal operational risks to which the bank is exposed. Core governance documents include the Risk Appetite Statement, the Operational Risk Management & Resilience Policy, and supporting operational risk related policies covering third party / outsourcing, regulatory compliance, cyber and technology risk, internal and external fraud, third-party/outsourcing risk, model, and other topics. The ERM framework is integrated with our ICAAP processes and applies across all business units and support functions.

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### **(b) Governance and Organisation**

We deploy a three-lines-of-defense operating model. The first line (business and operational units) owns and manages operational risks. They are responsible for identification, assessment and mitigation of operational risk in their areas.

The second line (Risk Management and other control functions) supports the first line. It sets policy and methodologies, provides independent review, participates or conducts scenario analysis and stress testing, monitors risk metrics and independently reports on the Bank's risk profile. Internal Audit (third line) provides independent assurance to the ARMC regarding the design and operating effectiveness of the framework.

Oversight of operational risk rests with the Board of Directors, supported by its Audit & Risk Committee (ARMC), which is responsible for approving the Risk Appetite Statement and operational risk limits at least annually. The Chief Risk Officer is accountable for the ORM Framework and reports to the Board via the ARMC. A Management Risk Committee with cross-functional membership regularly meets to oversee the Bank's operational risk activities.

### **(c) Measurement, Monitoring and Internal Reporting**

As an SMSB, the Bank calculates its Pillar 1 operational-risk capital requirement using the Simplified Standardized Approach for Operational Risk.

On a quarterly basis, risk reporting is provided to the Management Risk Committee and the ARMC summarizing the Bank's risk profile, including operational risk. This includes a qualitative assessment of top current and emerging risks, incident summary, KRI trends and periodic thematic analysis such as third party risk reviews. Material control breaches or risk events are escalated outside the regular reporting cycle.

### **(d) Risk Mitigation and the Control Environment**

The Bank employs a layered control structure structured around prevention, detection and response. Key elements include: business continuity and disaster recovery planning and testing; cyber-security and resilience protocols; outsourcing and vendor-risk management, including due diligence, service-level monitoring and exit-planning; fraud detection and response programmes; and insurance coverage where economically justified. The design and operating effectiveness of key controls are subject to independent review by Internal Audit.

### **(e) Tools Used to Identify, Assess, Monitor and Mitigate Operational Risk**

The Bank is in the process of enhancing its operational risk management tools. It is using or will use a suite of industry-recognised operational-risk tools, including:

- Risk & Control Self-Assessments (RCSAs) conducted across business units and functions;

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- Key Risk Indicators (KRIs) aligned to risk appetite thresholds;
- Internal operational risk event collection and analysis, aggregated by event type and business line;
- Periodic scenario analysis and stress testing to assess low-frequency/high-impact risks;
- Material change initiative approval frameworks;
- Third-party/outsourcing risk-management lifecycle controls (selection, oversight, exit);
- Incident-management with root-cause analysis, remediation tracking and issue-closure monitoring.