



GPC Financial Corporation

BASEL III PILLAR 3 DISCLOSURES
June 30, 2017



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I. Introduction and Purpose

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

This Report documents GPCFC's Basel III Pillar 3 disclosures as per the prescribed OSFI Framework that is based on guidance and standards established by the Basel Committee on Banking Supervision (BCBS). GPCFC is not considered a Domestic Systemically Important Bank (D-SIB) by OSFI and as such, this Report will include a modified version of the capital disclosure template for non-D-SIBs as outlined in the advisory *Public Capital Disclosure Requirements related to Basel III Pillar 3* released in July 2013 and a modified version of leverage ratio disclosure template for non-D-SIBs as outlined in the advisory *Public Disclosure Requirements related to Basel III Leverage Ratio* released in September 2014 (subsequently revised in November 2014).

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

This Report will be made available on the GPCFC website.

II. GPC Financial Corporation (GPCFC)

GPCFC was granted its letters patent on December 15, 2011 and received an amended Order to Commence and Carry-on Business from OSFI on April 5, 2013. GPCFC commenced business as a FRFI on October 1, 2013. GPCFC is a wholly owned subsidiary of Global Payments Direct, Inc. (GPDI).

As a direct member of Visa Canada, GPCFC acts as the financial institution Bin Identification Number (BIN) sponsor for GPDI's Visa marketing and processing services for Canadian merchants. GPCFC is also a direct member of MasterCard Canada, and provides Global Payments United Kingdom (GPUK) with use of its MasterCard InterBank Card Association (ICA) Membership as well as VISA BIN sponsorship.

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

GPCFC is neither a lending nor a deposit taking institution. On June 30, 2017, GPCFC's balance sheet contained no insured deposits, no uninsured deposits, no mortgages or loans receivable and no direct interest in any commercial or residential property of any kind. For these reasons, GPCFC's operations have a stable risk profile.

GPCFC's primary revenue comes from acquiring new Canadian merchants for Visa processing and by acting as the BIN sponsor for GPDI's existing Visa merchants' activity, charging GPDI for this sponsorship service on a cost-plus basis. In addition, GPCFC also earns revenue from acting as the BIN/ICA sponsor to GPUK.

III. Corporate Governance

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

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

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

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

IV. Capital Structure

GPCFC’s capital consists of common shares and retained earnings. As per Board and Shareholder approved By-Laws, an unlimited number of common shares have been authorized. All of GPCFC’s capital is Common Equity Tier 1 and as at June 30, 2017, 1,160 common shares were issued and outstanding. GPDI is the sole shareholder of GPCFC.

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

V. Capital Management

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

1. Board and senior management oversight;
2. Sound capital assessment and planning;
3. Comprehensive assessment of risks;
4. Stress testing;
5. Monitoring and reporting; and
6. Internal control review.

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

OSFI’s regulatory capital guidelines under Basel III allow for two tiers of capital. As at June 30, 2017, Common Equity Tier 1 (CET1) capital includes common shares, retained earnings and accumulated other comprehensive income. GPCFC currently does not hold any additional Tier 1 or Tier 2 capital instruments. Therefore, the Company’s CET1 is equal to its Tier 1 and Total capital.

Total capital for GPCFC on June 30, 2017 is \$40,438 (in 000’s).

Total capital ratio is calculated as total capital divided by risk-weighted assets (RWA). OSFI targets for Common Equity Tier 1 and total capital ratios to be at least 7% and 10.5%, respectively. In this regard, Tier 1 and total capital ratio for GPCFC was 18.68% as at June 30, 2017.

Risk Weighted Assets (RWA) (000’s)	As at June 30, 2016	As at September 30, 2016	As at December 31, 2016	As at March 31, 2017	As at June 30, 2017
Operational Risk (Basic indicator approach)	\$82,904	\$89,193	\$90,941	\$102,473	\$106,601
Credit Risk (Standardized approach)	\$150,782	\$148,076	\$188,453	\$94,201	\$109,844
Total RWA	\$233,686	\$237,269	\$279,394	\$196,674	\$216,445

Capital Targets (as percentage of RWA)	As at June 30, 2016	As at September 30, 2016	As at December 31, 2016	As at March 31, 2017	As at June 30, 2017	OSFI Guideline
Common Equity Tier 1 (CET1)	15.31%	15.66%	13.70%	19.94%	18.68%	7%
Tier 1 Capital	15.31%	15.66%	13.70%	19.94%	18.68%	8.5%
Total Capital	15.31%	15.66%	13.70%	19.94%	18.68%	10.5%

(To be continued...)

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V. Capital Management (continued)

As per Basel III leverage ratio framework and disclosure requirements, all FRFIs must report leverage ratio beginning Q1, 2015. For GPCFC, the leverage ratio is calculated as Tier 1 capital divided by total assets. In this regard, the leverage ratio for GPCFC was 17.50% as at June 30, 2017.

Leverage Ratio	As at June 30, 2016	As at Sept' 30, 2016	As at Dec' 31, 2016	As at March 31, 2017	As at June 30, 2017
Leverage Ratio	13.17%	13.88%	11.00%	19.23%	17.50%

VI. Enterprise Wide Risk Management (ERM) Framework

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

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

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

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

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

B. Credit Risk

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

The objective of the GPCFC's credit risk management program is to manage its risk within an appropriate tolerance and to maximize the overall return on the risks taken. The credit policies, standards, methodologies and practices associated with managing and monitoring exposure to merchant credit risk are outlined in the Credit Risk Management Policy and the supporting Credit Policy Manual. Credit risk is managed under the direction of the Chief Risk Officer with SMC and Board oversight. SMC meetings are held monthly and Audit and Risk Committee and Board Meetings are held quarterly where risk reports are discussed, and reviewed. Based on the above assessment, management considers there to be a low risk of credit risk underestimation using the Standardized Approach.

Concentrations of credit risk exist if a number of customers are engaged in similar activities, are located in the same geographic region or have similar economic characteristics such that their ability to meet contractual obligations could be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate a related sensitivity of GPCFC's performance to developments affecting a particular counterparty, industry or geographic location. Processing services are rendered to a large and geographically dispersed group of customers throughout Canada. Current credit exposure is limited to the loss that would be incurred if all of GPCFC's counterparties were to default at the same time.

C. Operational Risk

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

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

D. Market Risk

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

E. Liquidity & Funding Risk

Liquidity and funding risk for GPCFC is the risk that it may be unable to generate or obtain sufficient cash or its equivalent in a timely and cost-effective manner to meet its commitments as they come due. GPCFC's Liquidity and Funding Management Policy and related procedures define the policies, standards and practices associated with managing and monitoring the exposure to liquidity and funding risks. GPCFC monitors its liquidity position daily together with its cash flow forecasts. For additional funding, the Company has a borrowing facility with GPCI for up to \$100 million and an external overdraft facility for up to \$80 million. The key measures for managing liquidity include GPCFC establishing and maintaining:

- A Liquidity Ratio which is the sum of total liquid assets (cash and cash equivalents) to total non-cash assets, equal to at least 5% and monitoring the Ratio to identify adverse balance sheet trends and develop appropriate management strategies, as needed;
- Borrowing facilities with GPCI and a Schedule I Bank;
- GPCFC has established a Liquidity and Funding Contingency Plan. The Plan outlines the process to manage the range of stress environments and establish clear lines of responsibility and escalation procedures; and
- GPCFC has established processes and regular reporting to ensure that it is in full compliance with the applicable elements of the Basel III Global Liquidity Standard effective January 2015.

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VII. Basel III Pillar 3 Capital Disclosure

Basel III Pillar 3 Capital Disclosure		Q2 2017
As at June 30, 2017		All-In
(Amounts in thousands of Canadian Dollars except percentages)		
Common Equity Tier 1 - Capital- Instruments and Reserves		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	29,000
2	Retained earnings	11,438
3	Accumulated other comprehensive income (and other reserves)	NA
4	<i>Directly issues capital subject to phase out from CET1 (only applicable to non-joint stock companies)</i>	NA
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	NA
6	Common Equity Tier 1 capital before regulatory adjustments	40,438
Common Equity Tier 1 capital-regulatory adjustments		
28	Total regulatory adjustments to Common Equity Tier 1	NA
29	Common Equity Tier 1 capital (CET1)	40,438
Additional Tier 1 capital instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	
31	of which: classified as equity under applicable accounting standards	NA
32	of which: classified as liabilities under applicable accounting standards	NA
33	<i>Directly issued capital instruments subject to phase out from Additional Tier 1</i>	NA
34	Additional Tier 1 instruments (and CET1 instruments are not included in row 5) issued by subsidiaries and held by third parties (amount allowed group AT1)	NA
35	of which: instruments issued by subsidiaries subject to phase out	NA
36	Additional Tier 1 capital before regulatory adjustments	NA
Additional Tier 1 capital: regulatory adjustments		
43	Total regulatory adjustments to Additional Tier 1 capital	NA
44	Additional Tier 1 Capital (AT1)	NA
45	Tier 1 capital (T1=CET1+AT1)	40,438
Tier 2 capital: instruments and allowances		
46	Directly issued qualifying Tier 2 instruments plus related surplus	NA
47	<i>Directly issued capital instruments subject to phase out from Tier 2</i>	NA
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by	
49	third parties (amount allowed in group Tier 2)	NA
50	Collective allowances	NA
51	Tier 2 capital before regulatory adjustments	NA
Tier 2 capital: regulatory adjustments		
57	Total regulatory adjustments to Tier 2 capital	NA
58	Tier 2 capital (T2)	NA
59	Total capital (TC=T1+T2)	40,438
60	Total risk-weighted assets	216,445
Capital Ratios		
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	18.68
62	Tier 1 (as percentage of risk-weighted assets)	18.68
63	Total capital (as percentage of risk-weighted assets)	18.68
OSFI all-in target		
69	Common Equity Tier 1 capital all-in target ratio	7.00%
70	Tier 1 capital all-in target ratio	8.50%
71	Total Capital all-in target ratio	10.50%
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	NA
81	Amounts included from CET1 due to cap (excess over cap after redemptions and maturities)	NA
82	Current cap on AT1 instruments subject to phase out arrangements	NA
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	NA
84	Current cap on T2 instruments subject to phase out arrangements	NA
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	NA

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VIII. Basel III Leverage Ratio Disclosure

Basel III Leverage Ratio Disclosure		
As at June 30, 2017		Q2 2017
(Amounts in thousands of Canadian Dollars except percentages)		All-In
On-balance sheet exposures		
1	On-balance sheet items(excluding derivatives, SFTs and grandfathered securitization exposures but including collateral	231,109
2	(Asset amounts deducted in determining Basel III "all-in" Tier 1 capital)	NA
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	231,109
Derivative Exposures		
4	Replacement cost associated with all derivative transactions (i.e. Net of eligible cash variation margin)	NA
5	Add-on amounts for PFE associated with all derivative transactions	NA
6	Gross up for derivative collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	NA
7	(Deductions of receivables assets for cash variation margin provided in derivative transactions)	NA
8	(Exempted CCP-leg of client cleared trade exposures)	NA
9	Adjusted effective notional amount of written credit derivatives	NA
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	NA
11	Total derivative exposures (sum of lines 4 to 10)	NA
Securities financing transaction exposures		
12	Gross SFT assets recognized for accounting purposes (with no recognition of netting), after adjusting for sale accounting transactions	NA
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	NA
14	Counterparty credit risk (CCR) exposure for SFTs	NA
15	Agent transaction exposures	NA
16	Total securities financing transaction exposures (sum of lines 12 to 15)	NA
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	NA
18	(Adjustments for conversion to credit equivalent amounts)	NA
19	Off-balance sheet items(sum of lines 17 and 18)	NA
Capital and Total Exposures		
20	Tier 1 capital	40,438
21	Total Exposures (sum of lines 3, 11, 16 and 19)	231,109
Leverage Ratios		
22	Basel III leverage ratio	17.50