

Guideline

Subject: Capital Requirements

Date: January 12, 2016

Introduction

Under Section 20 of the *Alberta Treasury Branches Act*, ATB Financial “shall maintain capital in accordance with guidelines”. The following Guideline is authorized by the Minister and is effective January 12, 2016.

Interpretation

1(1) In this Guideline,

- (a) “deductions from capital” means, in relation to ATB, the aggregate of
 - (i) its goodwill and other intangible assets,
 - (ii) the following investments of ATB in its subsidiaries and affiliates, if any, as determined using the equity method of accounting:
 - (A) where a subsidiary or affiliate is a trust corporation or a loan corporation, a proportionate share of an amount equal to the capital that the trust or loan corporation is required by the statute incorporating or continuing it to maintain,
 - (B) where a subsidiary or affiliate is any other financial institution, the book value of ATB’s investment in that corporation, and
 - (C) where a subsidiary or affiliate is not one described in paragraph (A) or (B), an amount equal to the amount by which the book value of ATB’s investment in it exceeds 2% of ATB’s total assets,
 - (iii) an amount equal to the difference between the book value and the value at fair market rate of securities, other than securities issued or guaranteed by the government of Canada or of a province, beneficially owned by ATB, and
 - (iv) an amount equal to the difference between the book value and the value at fair market rate of land, other than land or the proportion of any parcel of land that is occupied by it for its own purposes, that ATB has acquired;

- (b) "deposit-taking institution" means
 - (i) a loan corporation, trust corporation or credit union incorporated or continued by or under an Act of Canada or a province, or
 - (ii) a bank;
- (c) "residential mortgage loan" means a mortgage loan by ATB to an individual to finance a residential dwelling consisting of not more than 4 units, where at least one of the units is to be owner-occupied and the parcel of land on which it is situated does not exceed 40 acres.

(2) With respect to the interpretation of expressions that are used in this Guideline and the Tables in the Schedule and are not specifically defined herein, reference shall be made to generally accepted accounting principles, including the accounting recommendations of the Canadian Institute of Chartered Accountants set out in the Handbook published by that Institute, as amended from time to time.

Maintenance of assets

2(1) In this section, with reference to ATB,

- (a) "Long Term ATB Notes" means the ATB Notes issued by ATB to the Government of Alberta pursuant to the Lending and Borrowing Agreement where the initial term to maturity of those ATB Notes is 5 years or more;
- (b) "capital" means the aggregate of its tier 1 capital and tier 2 capital, less deductions from capital;
- (c) "long-term capital investment deposits" are deposits
 - (i) issued by ATB through its retail network;
 - (ii) having an initial term to repurchase, maturity or other acquisition of not less than 5 years, and
 - (iii) where the maximum holding by any person is restricted to an amount not exceeding \$50,000.
- (d) "tier 1 capital" means its retained earnings;
- (e) "tier 2 capital" means the aggregate of
 - (i) the amount of its general allowances against loan losses subject to the maximum specified by subsection (4), and
 - (ii) the total issued value of any subordinated debt issued by ATB to the Government of Alberta, adjusted in accordance with the Adjustment Table;
 - (iii) the total issued value of any Long Term ATB Notes, adjusted in accordance with the Adjustment Table;

- (iv) an amount equal to the lesser of \$500 million and the total issued value of any long-term capital investment deposits, adjusted in accordance with the Adjustment Table and;
- (v) an amount equal to the greater of zero and an amount calculated in accordance with the formula

$$\$600 \text{ million} - 25\% (R_1 - R_0 + L)$$

where

R_0 = the retained earnings reported in ATB's audited annual financial statements as at March 31, 2009

R_1 = the retained earnings reported in ATB's audited annual financial statements as at the end of the fiscal year (starting with the 2008-09 fiscal year) for which the calculation is done

L = the absolute value of the sum of all net losses reported in ATB's audited annual financial statements as at a date after March 31, 2009, up to and including the fiscal year for which the calculation is done

(2) ATB shall maintain its assets in accordance with this Guideline so that its capital equals or exceeds the greatest of

- (a) 8% of its risk weighted assets,
- (b) 5% of its assets, and
- (c) the amount specified by the Minister by notice in writing.

(3) The maximum amount of subordinated debt, Long Term ATB Notes or long-term capital investment deposits that may be taken into account in determining capital for the purposes of subsection (2) is the total issue value of subordinated debt, Long Term ATB Notes or long-term capital investment deposits issued by ATB, adjusted in accordance with the following Adjustment Table:

ADJUSTMENT TABLE

Remaining term to date of repurchase, maturity or other acquisition*	Adjustment (deduction)	Proportion to be included in capital
5 years or more, or no specified date of repurchase, maturity or other acquisition	**R%	**100-R%
4 or more but less than 5 years	20%	80%
3 or more but less than 4 years	40%	60%
2 or more but less than 3 years	60%	40%

1 or more but less than 2 years	80%	20%
less than 1 year	100%	0%

NOTES TO THE TABLE

* Only subordinated debt, Long Term ATB Notes or long-term capital investment deposits with an original term to maturity of 5 years or more may be considered as debt for the purposes of this section.

* For the purposes of this Table, the "term to date" is the least of the number of years until the date of repurchase, maturity or other acquisition.

* Any subordinated debt, Long Term ATB Notes or long-term capital investment deposits with maximum redemption rates in excess of 20 per cent per year are deemed to have a remaining term to date equal to 100 per cent divided by the redemption rate.

** "R" is the maximum percentage of subordinated debt, Long Term ATB Notes or long-term capital investment deposits that may be redeemed during the year under the terms of the debt instrument.

(4) The maximum amount of general allowances against loan losses that may be taken into account in determining capital for the purposes of subsection (2) is an amount equal to the lesser of

- (a) .875% of the risk weighted assets of ATB, and
- (b) an amount prescribed by the Minister.

(5) ATB may not redeem any of the Long Term ATB Notes at any time prior to 5 years from the date of such Note:

- (a) without the prior written approval of the Alberta Superintendent of Financial Institutions; and
- (b) unless ATB:
 - (i) replaces such Notes with capital of the same or better quality and the replacement of such Notes is done on conditions which are sustainable for the income capacity of ATB; or
 - (ii) can demonstrate that its capital position is above the minimum capital requirements set out in subsection (2) after such redemption is exercised.

(6) The Minister shall ensure that the contents of a notice under subsection (2)(c) is available in such a form as the Minister considers appropriate, to all persons likely to be affected by it.

Risk weighting

3(1) Subject to sections 4 to 6, the risk weighted assets of ATB are the aggregate of

(a) for on-balance sheet items, the sum of the products of $\$A \times R$ for each asset category set out in Table 1, where A is the total book value of the asset held by ATB in each such asset category and R is the risk weighting factor set out in Table 1 for that asset category,

(b) for off-balance sheet items excluding derivative contracts in subsection (c), the sum of the products of $\$F \times V \times R$ for each financial instrument set out in Table 2, where F is the face amount of the financial instrument, V is the credit conversion factor for that financial instrument set out in Table 2 and R is the risk weighting factor set out in Table 1 for the asset category underlying the financial instrument, and

(c) for derivative contracts not subjected to novation or netting under subsection (2), the sum of the products of the following formula, computed for each derivative contract, namely

$$[(P \times A) + \text{PRC}] \times C$$

where

P is the notional principal amount of the contract

A is the add-on factor set out in Table 4

PRC is the replacement cost, obtained by "marking to market", of the contract if it has a positive value, and

C is the risk weighting factor set out in Table 3 for the counter-party.

(2) ATB may, in accordance with those guidelines issued by the federal Office of the Superintendent of Financial Institutions and currently in place whose subject-matter is capital adequacy requirements, net derivative contracts that are subject to novation or any other lawful form of netting within the meaning of those guidelines and, if it does so, shall calculate the credit equivalent amount of netted derivative contracts in accordance with those guidelines.

Partial guarantees

4 Where a loan or security is partially guaranteed, only that part of it that is guaranteed may be risk weighted as guaranteed.

Privately issued mortgage backed securities

5(1) The privately issued mortgage backed securities of a mortgage pooling fund are to be risk weighted according to the underlying assets if the following conditions are met:

(a) there are in place mortgage pooling agreements that require or that relate to a special purpose vehicle and a trustee and that provide that the following conditions are to be observed:

- (i) the trustee is to monitor the performance of the mortgage pooling fund administrator, unless they are the same person;
 - (ii) the investors are to receive information, at least annually, on the structure and performance of the fund;
 - (iii) the special purpose vehicle and the trustee are to be legally separate from the person who initiated the mortgages included in the mortgage pooling fund;
 - (iv) the special purpose vehicle and the trustee are to be responsible for any damage or loss to investors created by the negligent management of the assets in the fund;
- (b) the mortgage pooling fund contains only mortgages that were fully performing when the mortgage backed securities were created;
- (c) the mortgage backed securities are not required to absorb any more than their prorated share of any losses incurred on the underlying assets;
- (d) the securitization and administration of the mortgages are effected in the special purpose vehicle;
- (e) the underlying mortgages are assigned to a third party who is independent of the person who initiated the mortgages included in the mortgage pooling fund, for the benefit of the investors in the mortgage backed securities;
- (f) the trustee has a first charge over the underlying assets of the special purpose vehicle on behalf of the holders of the mortgage backed securities;
- (g) the agreement provides for the trustee to take clearly specified steps where the mortgagor defaults;
- (h) either the holders of the mortgage backed securities have a prorated share in the underlying assets or the special purpose vehicle that issues the mortgage backed securities has no liabilities other than liabilities related to the issuing of the mortgage backed securities;
- (i) the cash flows of the underlying assets meet the cash flow requirements of the mortgage backed securities without undue reliance on any reinvestment income;
- (j) the special purpose vehicle or the trustee is allowed to invest cash flows, pending distribution to investors, only in short-term money market instruments without any material investment risk, or in new mortgage loans.

(2) Where privately issued mortgage backed securities do not meet the conditions in subsection (1) they are to be risk weighted according to item 21, "All other assets", in Table 1.

(3) Where the pool of assets underlying the mortgage backed securities consists of assets that would attract different risk weights, the risk weight to be used for the mortgage backed securities is to be the highest risk weight associated with the underlying assets.

(4) In subsection (1), "special purpose vehicle" means a legal entity or a specifically designated mortgage pooling fund whose only assets are related to the underlying mortgages and to any cash or short-term investments associated with the administration of those mortgages.

Investments in mutual fund units

6 Investments in mutual fund units are to be risk weighted at the highest risk weight associated with the underlying assets of the mutual fund.

Schedule

Table 1
On-balance Sheet Items

	Asset Category (\$A)	Risk Weighting Factor (R)
1.	Cash	0.0
2.	Securities issued or guaranteed by the Government of Canada or of a province or by its agent	0.0
3.	Loans to, or guaranteed by, the Government of Canada or a province	0.0
4.	Mortgages issued under the <i>National Housing Act</i> or under an equivalent provincial statute	0.0
5.	Loans fully secured by securities issued or guaranteed by the Government of Canada or a province	0.0
6.	Loans fully secured by deposits in ATB	0.0
7.	Deductions from capital (as defined in section 1(1)(a) of this Guideline)	0.0
8.	Deposits in, or securities issued by, a deposit taking institution, including bankers' acceptances, bankers' demand notes and comparable securities	0.2
9.	Cheques and other items in transit	0.2
10.	Loans to a deposit-taking institution	0.2
11.	Loans fully secured by deposits in a deposit-taking institution	0.2
12.	Securities issued or guaranteed by a municipality or school board	0.2
13.	Loans to or guaranteed by a municipality or school board	0.2
14.	Loans fully secured by securities issued or guaranteed by a municipality	0.2
15.	Residential mortgages that are allowed by section 9 of the Regulation, other than those in asset category 4	0.5
16.	All residential mortgages other than those in asset categories 4 and 15	1.0
17.	Commercial or agricultural loans	1.0
17.1.	Loans or financial lease agreements to individuals	0.8
18.	Fixed assets, including buildings, land, leasehold improvements, equipment or comparable assets at book value	1.0
19.	Land acquired in settlement of a debt and held for less	1.0

	Asset Category (\$A)	Risk Weighting Factor (R)
	than 7 years	
20.	Land acquired for investment	1.5
21.	All other assets	1.0

Table 2

Off-balance Sheet Items

	Financial Instrument	Credit Conversion Factor (V)
1.	Direct credit substitutes (general guarantees of indebtedness and guarantee-type instruments, including standby letters of credit serving as financial guarantees for, or supporting, loans and securities, securities lending).	100%
2.	Acquisitions of risk participation in bankers' acceptances and participation in direct credit substitutes (e.g., standby letters of credit).	100%
3.	Sale and repurchase agreements.	100%
4.	Forward contracts (contractual obligations) to purchase assets, including financing facilities with certain draw down.	100%
5.	Transaction related contingencies (e.g., performance bonds, warranties, and standby letters of credit related to a particular transaction).	50%
6.	Commitments with an original maturity exceeding one year, including underwriting commitments and commercial credit lines.	50%
7.	Revolving underwriting facilities, note issuance facilities and other similar arrangements.	50%
8.	Short-term self-liquidating trade-related contingencies, including documentary letters of credit.	20%
9.	Commitments with an original maturity of one year or less or that are unconditionally cancellable at any time.	0%

Table 3

Counterparty	Counterparty Weight (C)
Government	0.0
Deposit-taking financial institutions	0.2
Other	0.5

Table 4

Add-on Factor in Section 3(1)

Residual Maturity	Type of Contract				
	Interest Rate	Currency Exchange Rate and Gold	Equities	Precious Metals except Gold	Other Commodities
One year or less	0.0%	1.0%	6.0%	7.0%	10.0%
Over one year but not over five years	0.5%	5.0%	8.0%	7.0%	12.0%
Over five years	1.5%	7.5%	10.0%	8.0%	15.0%