Walmart Canada Bank

Basel III Pillar 3 Disclosures

As at December 31, 2018

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DOCUMENT OVERVIEW

This document represents the Pillar 3 disclosures for Walmart Canada Bank (the "Bank") as at December 31, 2018 pursuant to OSFI's Pillar 3 Disclosure Requirements. This report is unaudited and is reported in thousands of Canadian Dollars, unless otherwise disclosed.

REPORTING ENTITY

The Bank is domiciled in Canada and was incorporated as a Schedule II Canadian chartered bank under the Bank Act on July 24, 2009. The address of the Bank's registered office is 1940 Argentia Road, Mississauga, Ontario, L5N 1P9. Effective October 27, 2011, the Bank is a wholly owned subsidiary of WMTB Holding ULC (the "Parent"). The ultimate parent of the group is Wal-Mart Stores Inc. The Bank received orders to commence and carry on business on June 1, 2010. The Bank launched a Rewards MasterCard in June 2010. The Bank is not considered a Domestically Systematically Important Bank (DSIB) by OSFI.

FINANCIAL RISK MANAGEMENT

The Bank is exposed to credit risk, interest rate risk, and liquidity risk arising from its operations and use of financial instruments. The Bank does not have any trading book portfolios, and as such, has low exposure overall to market risk.

Risk management framework

The Board of Directors (the "Board") has oversight responsibility for the Bank's risk management framework. The Bank has established the Asset and Liability Committee ("ALCO"), Credit Risk Committee ("CRC") and Senior Management Committee. These committees are responsible for developing and monitoring the Bank's risk management policies in their specific management areas and report to the Board regularly. The Conduct Review Committee and Audit Committee are additional Board committees that report to the Board.

The Bank's Board and Management establish risk management policies to identify and define the risks faced by the Bank, sets out appropriate risk limits and controls, and establish processes to ensure adherence to these limits.

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk for the Bank arises principally from the Bank's credit card loans to customers.

The Board is responsible for the oversight of credit risk management. The CRC, under the oversight of the Board, monitors and approves the credit risk management program. The CRC supports the Chief Risk Officer and the credit department in the following:

Development and implementation of sound and prudent policies and procedures to effectively manage and control credit risk. Policies include credit assessment criteria, risk grading and reporting, documentation and compliance for legal, regulatory or statutory requirements.

Development and implementation of effective credit granting, account management and collection processes. Processes include approval authority management, diversification of credit limits, credit risk assessment, credit application evaluation, fraud identification and management, and write-offs.

Development and implementation of comprehensive procedures to effectively monitor and control the nature, characteristics, and quality of the credit portfolio. This includes reporting, portfolio characteristic monitoring, concentration reviews, risk grading monitoring, and credit review processes.

Detailed disclosures pertaining to Credit Risk are located in Appendix B.

Market risk

As mentioned above, the Bank does not have any trading book portfolios, and as such, has low exposure overall to market risk.

Equity risk

The Bank has no equity risk since it does not hold any equity portfolios.

Interest Rate Risk

The Bank is exposed to interest rate risk through its mismatch of credit card loans repricing versus its variable interest rate loan from Wal-Mart Canada Corp. ALCO monitors this mismatch, as well as interest rate movements in Canada, and reports to the Board.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and financial liabilities to rate shift scenarios.

Detailed disclosures pertaining to Interest Rate Risk are located in Appendix C.

Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet commitments and obligations when due or may incur significant costs in meeting obligations. The Bank manages its exposure to short-term and long-term liquidity by ensuring that adequate governance, policies, and procedures are in place to manage cash on a daily, weekly, and monthly basis. Long-range planning and forecasting tools are used to monitor long-term funding needs. The ALCO monitors both short-term and long-term needs. A liquidity contingency plan is also in place to ensure funding needs are met during a crisis.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It excludes strategic and reputation risk. The Bank manages its exposure to operational risk through the implementation of assessment methods, including operational risk self-assessments and loss tracking. The Bank uses the basic indicator approach to measure operational risk.

CAPITAL MANAGEMENT

The Bank's policy is to maintain a strong capital risk management program to ensure adequate capital to sustain future development of the business and to exceed external regulatory requirements. The impact of the level of capital on the shareholders' returns is also monitored and the Bank recognizes the need to maintain a balance between the higher returns that might be possible and the security afforded by a sound capital position.

The Bank is authorized to issue an unlimited number of preferred shares, without nominal or par value, for unlimited consideration. These have preference over common shares. There were no preferred shares outstanding at December 31, 2018.

The Bank is authorized to issue an unlimited number of its common shares, without nominal or par value, for unlimited consideration. As at December 31, 2018, the Bank had 224,500,000 common shares issued and outstanding.

Regulatory Capital Position

The Bank calculates its regulatory capital based on the following methodologies:
The Bank manages its credit risk using the standardized approach and the Bank's operational risk is monitored using the Basic Indicator Approach.

The Bank's regulatory capital consists of Tier 1 and Tier 2 capital. Tier 1 capital includes ordinary share capital and retained earnings. Tier 2 capital includes the OSFI-approved amounts relating to the Bank's IFRS 9 General Allowances, up to a maximum of 1.25% of Credit Risk Weighted Assets.

The Bank has complied with all externally and internally imposed capital requirements throughout the year. Management uses regulatory capital ratios in order to monitor its capital base. These capital ratios remain the international standards for measuring capital adequacy. The Bank's policies in respect of capital management are reviewed regularly by the Board.

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and exposures not recognized in the statement of financial position.

The Bank's regulatory capital position under Basel III as at December 31, 2018 is outlined in Appendix A.

APPENDIX A

BASEL III COMMON DISCLOSURES
As at December 31, 2018

BCAR CALCULATIONS		All-in
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	225,790
2	Retained earnings	1,566
3	Accumulated other comprehensive income (and other reserves)	
4	*Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)*	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	
6	**Common Equity Tier 1 capital before regulatory adjustments**	227,356
28	Total regulatory adjustments to Common Equity Tier 1	(9,559)
29	**Common Equity Tier 1 capital (CET1)**	217,797
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	
31	of which: classified as equity under applicable accounting standards	
32	of which: classified as liabilities under applicable accounting standards	
33	*Directly issued capital instruments subject to phase out from Additional Tier 1*	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	
35	*of which: instruments issued by subsidiaries subject to phase out*	
36	**Additional Tier 1 capital before regulatory adjustments**	
43	**Total regulatory adjustments to Additional Tier 1 capital**	
44	**Additional Tier 1 capital (AT1)**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**217,797**
51	**Tier 2 capital before regulatory adjustments**	13,391
57	**Total regulatory adjustments to Tier 2 capital**	
58	**Tier 2 capital (T2)**	13,391
59	**Total capital (TC = T1 + T2)**	231,189
60	**Total risk-weighted assets**	1,529,381
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	14.24
62	Tier 1 (as percentage of risk-weighted assets)	14.24
63	Total capital (as percentage of risk-weighted assets)	15.12
69	Common Equity Tier 1 capital all-in target ratio	7.0
70	Tier 1 capital all-in target ratio	8.5
71	Total capital all-in target ratio	10.5

LEVERAGE RATIO FRAMEWORK

On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	1,339,082
2	(Asset amounts deducted in determining Basel III “all-in” Tier 1 capital)	(9,559)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**1,329,523**
Derivative exposures		
4	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	
5	Add-on amounts for PFE associated with all derivative transactions	
6	Gross up for derivatives collateral provided where deducted from the balance sheet	
7	(Deductions of receivables assets for cash variation margin provided in derivative transactions)	
8	(Exempted CCP-leg of client cleared trade exposures)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	**Total derivative exposures (sum of lines 4 to 10)**	**0**
Securities financing transaction exposures		
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	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**0**
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	4,005,333
18	(Adjustments for conversion to credit equivalent amounts)	(3,604,799)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**400,533**
Additional Tier 1 capital: regulatory adjustments		
20	**Tier 1 capital**	**217,797**
21	**Total Exposures (sum of lines 3, 11, 16 and 19)**	**1,730,056**
Additional Tier 1 capital: regulatory adjustments		
22	**Basel III leverage ratio**	**12.6%**

APPENDIX B: CREDIT RISK

GENERAL AND QUANTITATIVE DISCLOSURES

The following information provides quantitative analysis of the Bank's total credit card portfolio by account balance, credit limit, delinquency and geography.

Account Balances	Receivables Outstanding	% of Receivables
Credit Balance	($9,433)	-0.8%
Less than or equal to $500.00	$51,483	4.2%
$500.01 - $1,000.00	$83,472	6.8%
$1,000.01 - $3,000.00	$314,028	25.5%
$3,000.01 - $5,000.00	$247,582	20.1%
$5,000.01 - $10,000.00	$391,475	31.8%
Greater than $10,000.00	$152,029	12.4%
Total[1]	**$1,230,636**	**100.0%**

Note 1: As reported on the BH regulatory submission

Credit Limits	Receivables Outstanding	% of Receivables
Less than or equal to $500.00	$738	0.1%
$500.01 - $1,000.00	$39,037	3.2%
$1,000.01 - $3,000.00	$136,966	11.1%
$3,000.01 - $5,000.00	$219,540	17.8%
$5,000.01 - $10,000.00	$442,128	35.9%
Greater than $10,000.00	$392,227	31.9%
Total[1]	**$1,230,636**	**100.0%**

Note 1: As reported on the BH regulatory submission

Days Delinquent	Receivables Outstanding	% of Receivables
Current[1]	$1,137,040	92.4%
1 day to 29 days	$49,235	4.0%
30 days to 59 days	$13,716	1.1%
60 days to 89 days	$9,716	0.8%
90 days to 119 days	$8,309	0.7%
120 days to 159 days	$6,616	0.5%
160 days to 179 days	$6,003	0.5%
Total[2]	**$1,230,636**	**100.0%**

Note 1: As reported on the BH regulatory submission

By Province	Receivables Outstanding	% of Receivables
Alberta	$182,736	14.8%
British Columbia	$162,509	13.2%
Manitoba	$55,381	4.5%
New Brunswick	$20,255	1.6%
Newfoundland	$11,714	1.0%
Northwest Territory	$1,492	0.1%
Nova Scotia	$26,748	2.2%
Nunavut Territory	$387	0.0%
Ontario	$730,869	59.4%
Prince Edward Island	$3,145	0.3%
Quebec	$294	0.0%
Saskatchewan	$33,858	2.8%
Yukon Territory	$1,216	0.1%
US	$33	0.0%
Other	$0	0.0%
Total[1]	**$1,230,636**	**100.0%**

Note 1: As reported on the BH regulatory submission

ALLOWANCE FOR CREDIT LOSSES

As at January 1, 2018, the Bank adopted IFRS 9. The allowance for credit card losses is established using an Expected Credit Loss' ("ECL") model. Credit card loans are individually assessed to determine the appropriate allowance. The allowance for credit losses is maintained at a level that management considers appropriate to cover estimated credit related losses in the portfolio. The ECL model requires considerable judgment, including the use of macroeconomic forecasts across multiple growth scenarios.

Credit card loans are impaired when there is objective evidence of deterioration in the credit quality to the extent that there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Credit card balances are written off after a payment is 180 days in arrears

The following are the changes in the allowance for credit card losses for the quarter:

Allowance for Credit Card Losses, beginning of quarter	$145,018
Provision for credit card losses	$42,668
Recoveries	$3,911
Write-offs	($27,012)
Allowance for Credit Card Losses, end of quarter[1]	**$164,585**

Note 1: As reported on the C3 regulatory submission

DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDIZED APPROACH

Walmart Canada Bank invests in government issued securities, cash deposits and short term investments with regulated financial institutions.

	Amount	**Risk Weight**
Deposits with Regulated Financial Institutions	$95,096	20%
Government Issued or Guaranteed Securities	$31,937	0%
Total	**$127,033**	

DISCLOSURES FOR PORTFOLIOS SUBJECT TO IRB APPROACHES

Walmart Canada Bank manages credit risk using the standardized approach, and as such, the bank does not have any portfolios subject to the Internal Ratings-Based (IRB) approach.

CREDIT RISK MITIGATION

Walmart Canada Bank's loans receivable consists of credit card receivables exclusively. The credit card loans are unsecured and are not guaranteed. The bank invests in government issued or guaranteed securities and deposits with regulated financial institutions. Therefore, coupled with the controls that are specified in the first part of this document, the Bank is exposed to immaterial risk.

GENERAL DISCLOSURE FOR EXPOSURES RELATED TO COUNTERPARTY CREDIT RISK

Walmart Canada Bank does not have large counterparty exposure to financial guarantors, investment banks or derivative counterparties. The only exposures the Bank has are listed in the standardized approach disclosure above. The Bank holds those assets solely for the intent to fund its growing portfolio and for compliance with all regulatory liquidity metrics.

SECURITIZATION: DISCLOSURE FOR STANDARDIZED APPROACH

Walmart Canada Bank does not securitize any of its assets, and as such, the bank is not exposed to any securitization risk.

APPENDIX C: INTEREST RATE RISK

The Asset & Liability Committee oversees and assesses the following impacts resulting from a plus or minus 100 bps parallel shift in interest rates:

- Projected Net Interest Income (NII) over the next 12 months
- Net Economic Value (NEV)

The impacts have a close linear relation to the basis point shift. Consequently, a 200bps shift would impact NII and NEV twice as much as a 100bps shift.

The limits for the interest rate impact are set at the greater of $10MM or 10% for NII, and 10% for NEV. The results of the most recent quarter are as follows:

	Limit	Impact	% Impact
Net Interest Income	$10MM / 10%	$2MM	1%
Net Economic Value	10%	[redacted]	8%

APPENDIX D: REMUNERATION

OVERALL COMPONENTS OF COMPENSATION

The Bank structures its approach to compensation consistent with the approach used by Wal-Mart Canada Corp., but tailored to fit the financial services industry and related regulatory requirements. Rewards are based on business performance objectives and are structured to incentivise associates to meet strategic business objectives. The remuneration policy is applicable to all regions and business lines of the Bank.

Remuneration is overseen by the Conduct Review Committee (CR Committee) and is comprised of 4 members. The CR Committee consists of at least three directors appointed by the Bank's Board of Directors. A majority of the members of the CR Committee consists of directors who are not persons affiliated with the Bank, for the purposes of the *Bank Act*. None of the members of the CR Committee are officers or employees of the Bank or a subsidiary of the Bank. The CR Committee is required to meet at least four times per fiscal year. Each member of the CR Committee is paid $2,000 each year for serving on the CR Committee.

Each year, the CR Committee, in conjunction with any unaffiliated directors who are not CR Committee members, completes a review and assessment of the compensation structure for senior management positions within the Bank. The CR Committee reports to the Board with respect to such review and assessment. No changes to the remuneration policy were made in the 2014 fiscal year.

All material risk takers are members of the Bank's senior management team consisting of 6 associates.

Compensation for senior management is comprised of base salary, short-term cash incentives, and a long term incentive plan. Base salary is reviewed for all colleagues annually and as required by market conditions.

SHORT TERM INCENTIVE PLAN

The Bank's short term incentive plan is called the Management Incentive Plan (MIP) and is designed to motivate senior management to meet annual business and financial objectives. It is a variable, cash-based, unrestricted incentive plan.

Every fiscal year, the business results are measured against specific financial and performance goals. To avoid inappropriate risks, senior management's MIP is based on performance against a wide variety of measures, including the performance of the consolidated retail organization. The performance goals are as follows: Total Credit Card Sales, Average Accounts Receivable, Credit Card Applications, Credit Card Income, and overall Wal-Mart Canada Corp. Income. This all-encompassing approach to bonus compensation ensures alignment across the senior management team and avoids risks that arise when senior management personnel have isolated performance targets. Consequently, the control and oversight functions within the Bank have objectives consistent with the rest of Senior Management to ensure proper alignment with the Bank's overall goals.

The MIP is a self-funded program that is expressed as a percentage of base salary determined by position and level within the organization. Depending on actual performance relative to set performance targets, cash payouts range from zero to the maximum target within each range.

SHORT-TERM INCENTIVE PLAN	# of Associates		Dollar Value ($000's)	
	2018	2017	2018	2017
Variable, Cash-Based, Unrestricted	4	4	$584	$661

LONG TERM INCENTIVE PLAN

The Bank's long term incentive plan (LTIP) is part of senior management's overall compensation structure. Senior management participates in Wal-Mart Stores Inc.'s LTIP program, which awards long term incentives in the form of Restricted Stock Units (RSUs) and Performance Units (PUs).

RSUs are fixed, share-based, deferred incentives that have a three year vesting period. PUs are variable, share-based, deferred incentives that have a three year vesting period. The value of the PU award is determined based on two equal performance indicators: Wal-Mart Canada Corp.'s performance against Sales Growth and Return on Investment goals.

The value of the RSUs and PUs are directly linked to the change in value of Wal-Mart Stores Inc.'s Common Shares, and serve as deferred compensation. The proportion of award to base salary is commensurate with the level of the applicable employee and their respective roles and responsibilities.

LONG-TERM INCENTIVE PLAN	Outstanding Shares (Deferred Remuneration)		Value of Remuneration Paid Out ($000's)	
	2018	2017	2018	2017
Share-Based, Deferred, Fixed	9,009	9,023	$193	$238
Share-Based, Deferred, Variable	4,237	4,268	$304	$255