



Rogers Bank

## Basel III Pillar 3 Disclosures

As at September 30, 2015

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## 1. Scope of Application

This document embodies the Pillar 3 disclosures for Rogers Bank (the "Bank") as at September 30, 2015 pursuant to OSFI's Pillar 3 Disclosure Requirements.

As part of Basel framework Pillar 3 – Market Discipline builds on capital requirements and supervisory review process by developing a set of disclosures allowing market participants to assess the capital adequacy of the Bank.

The Bank is not a Domestic Systemically Important Bank (DSIB) and utilises Part 5 of Public Capital Disclosure Requirements related to Basel III Pillar 3 Advisory (July 2013) as the framework for this Disclosure. This document presents capital structure and adequacy calculations based on an "All-in" basis as per OSFI requirement. This report is unaudited and is reported in thousands of Canadian Dollars, unless otherwise noted.

### Reporting Entity

The Bank is a Schedule I Canadian chartered bank governed by the Bank Act. It was incorporated on April 24, 2013. The address of the Bank's registered office is 333 Bloor Street East, Toronto Ontario M4W 1G9. The Bank is a wholly owned subsidiary of Rogers Communications Inc. (the "Parent"). The Bank received orders to commence and carry on business on August 23, 2013.

The Bank launched two consumer credit card products in late 2013. The initial product has no annual fee and a competitive rewards program which will allow customers to earn and redeem Rogers First Rewards towards goods and services offered by the Parent. The other product also has no annual fee and has a competitive cash back rewards program. The Bank records the credit card receivables and associated funding on its Balance Sheet.

### Risk Management Framework

The Bank's Board and Management establish risk management policies to identify and define the risks faced by the Bank, set out appropriate risk limits and controls, and establish processes to ensure adherence to these limits. The Asset and Liability Committee ("ALCO"), Credit Risk Committee ("CRC") and Senior Management Committee ("SMC") are responsible for developing and monitoring these policies.

A comprehensive Internal Capital Adequacy Assessment Process ("ICAAP") is used in understanding and quantifying material risks the Bank may face. It is used to assess internal capital requirements against regulatory capital requirements in the capital planning process. Capital targets are tied to the ICAAP findings as well as to regulatory capital requirements. The risk quantification process, including stress testing, serves to model potential risks facing the business from both strategic and capital requirements perspectives.

Risks are monitored and communicated to the Board annually. Based on risk monitoring, risk probabilities and identification of any new or escalating risks, capital requirements are assessed frequently and any ICAAP findings and material changes to risk are reported periodically to the SMC, and if considered necessary by management, to the Board.

## 2-3. Capital Structure and Adequacy

The Bank's policy is to maintain a capital risk management program, which ensures adequate capital to sustain ongoing functioning and future development of the business and to meet external and internal requirements. The Bank recognizes the need to maintain a balance between higher shareholders' returns and the security afforded by a sound capital position.

The Bank has committed sources of sufficient capital from its Parent to insulate the Bank from unexpected events and support business growth.

### Regulatory Capital Position

The Bank calculates its regulatory capital by managing its credit risk using the Standardized Approach and monitoring its operational risk using the Basic Indicator Approach.

The Bank's regulatory capital consists of Tier 1 capital only. Tier 1 capital includes common share capital and retained earnings. The Bank is in compliance with all externally and internally imposed capital requirements. Management uses regulatory capital ratios to monitor its capital base. The Bank's capital management policies are reviewed regularly by the Board.

Banking operations are categorised as either trading or banking book. The Bank assigns risk weights to assets reflecting different levels of risk and exposures not recognised in the statement of financial position.

### Calculation of Risk-Weighted Assets

Risk-weighted Assets are composed of two components attributed to Credit and Operational Risk. Credit Risk component consists of Cash and Deposits weighted at 20% (\$1.7M as at September 30, 2015, Government Securities are weighted at 0% and, therefore, excluded from the calculation) and Net Card Receivables weighted at 75% (\$14.6M). Operational Risk component is derived from the average Revenue for the last three years at alpha of 15% and multiplier of 12.5 (\$3.1M). Total Risk-Weighted Assets are \$19.6M as at September 30, 2015.

The following table presents calculation of the Bank's Capital Position in thousands of Canadian dollars as at September 30, 2015:

Total Capital		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	55,000
2	Retained earnings	(36,161)
28	Total regulatory adjustments to Common Equity Tier 1	(7,715)

29	Common Equity Tier 1 capital (CET1)	11,124
36	Additional Tier 1 capital before regulatory adjustments	-
45	Tier 1 capital (T1 = CET1 + AT1)	11,124
58	Tier 2 capital (T2)	-
59	<b>Total capital (TC = T1 + T2)</b>	<b>11,124</b>
<b>Risk-weighted assets</b>		
60	<b>Total risk-weighted assets</b>	<b>19,579</b>
<b>Capital ratios</b>		
61	<b>Common Equity Tier 1 (as percentage of risk-weighted assets)</b>	<b>57%</b>
62	<b>Tier 1 (as percentage of risk-weighted assets)</b>	<b>57%</b>
63	<b>Total capital (as percentage of risk-weighted assets)</b>	<b>57%</b>
<b>OSFI all-in target</b>		
69	<b>Common Equity Tier 1 capital all-in target ratio</b>	<b>20%</b>

The Bank's detailed capital position under Basel III as at September 30, 2015 is outlined in Appendix A.

#### 4-6. 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 Credit 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 collections 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.

#### *Portfolio metrics*

The following table presents the percentage of the Bank's credit card loan portfolio by credit limit as at September 30, 2015:

<b>Credit Limit</b>	<b>% of Total Number of Accounts</b>	<b>% of Total Receivables</b>
Less than or equal to \$1,000	15%	7%
\$1,001 - \$5,000	61%	65%
\$5,001 - \$9,999	17%	21%
\$10,000 and over	7%	7%
Total	100%	100%

The following table presents the percentage of the Bank's credit card loan portfolio by Account Balance as at September 30, 2015:

<b>Account Balance</b>	<b>% of Total Number of Accounts</b>	<b>% of Total Receivables</b>
Less than or equal to \$2,000	93%	48%
\$2,001 - \$5,000	6%	36%
\$5,001 - \$9,999	1%	15%
\$10,000 and over	<1%	1%
Total	100%	100%

The following table presents the percentage of the Bank's credit card loan portfolio by Delinquency Buckets as at September 30, 2015:

<b>Delinquency Buckets</b>	<b>% of Total Number of Accounts</b>	<b>% of Total Receivables</b>
Current to <31 days	99%	97%
31 – 60 days	<1%	1%
61 – 90 days	<1%	<1%
90+ days past due	<1%	2%
Total	100%	100%

### ***Allowance for credit card losses***

The Bank maintains an allowance for loan losses (the "allowance") that represents management's best estimate of incurred loan credit losses inherent in our loan portfolio. The allowance is increased through a provision for loan losses (the "provision") and reduced by net charge-offs. Any credit card loan with a payment that is contractually 180 days in arrears, or where likelihood of collection is considered remote, is charged off. The provision reflects credit losses the Bank believes to have been incurred and will eventually be reflected over time in the charge-offs. The charged-off uncollectible amounts are deducted from the allowance and subsequent recoveries are added.

In determining the allowance, loans in the Bank's portfolio with similar credit risk characteristics are disaggregated into pools. Management performs monthly analysis of these loan pools to determine if impairment has occurred and to assess the adequacy of the allowance based on current trends and other factors affecting credit losses. Documented systematic methodologies are applied to calculate the allowance for our credit card portfolio. The allowance consists of components to cover the estimated probable losses based on the results of our detailed review and loan impairment assessment process.

The formula-based component for the allowance is based on a statistical calculation. Because of the homogenous nature of the Bank's credit card loans, the allowance is established through a process that begins with estimates of incurred losses based on various statistical analyses. Loss forecast models incorporate the impact of exogenous factors evident in the current period which are assumed to remain constant.

The following table presents a summary of changes in the allowance for loan as at December 31:

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
Allowance for credit card losses, beginning of the year	\$ (10)	-
Provision for loan losses	(303)	(10)
Charged-offs	26	-
Recoveries	-	-
Net provision	(277)	(10)
Allowance for credit card losses, end of the year	\$ (287)	(10)

### Credit Concentration Risk

Asset concentration risk is inherent within the credit card portfolio. To mitigate this risk, the Bank has developed its Credit Risk policy to ensure that its portfolio is well diversified. Diversification guidelines are set out in the Credit Risk policy and are approved by the Board. The Bank monitors exposure by geography including assessment of any trends in concentration with reference to population. The Bank's customers are drawn across Canada and therefore should be well diversified geographically and demographically.

The following table presents the percentage of the Bank's credit card loan portfolio by Province of cardholder residence as at September 30, 2015:

<b>Province</b>	<b>% of Total Number of Accounts</b>	<b>% of Total Receivables</b>
Alberta	4%	6%
British Columbia	8%	7%
Manitoba	3%	3%
New Brunswick	2%	2%
Newfoundland and Labrador	1%	<1%

Nova Scotia	1%	1%
Northwest Territories	<1%	<1%
Nunavut	<1%	<1%
Ontario	75%	76%
Prince Edward Island	<1%	<1%
Quebec	6%	5%
Saskatchewan	<1%	<1%
Yukon	<1%	<1%
Other	<1%	<1%
Total	100%	100%

## 7. Credit Risk Mitigation

The Bank's credit card loans are unsecured and are not guaranteed. The Bank invests in government issued or guaranteed securities and deposits with regulated financial institutions.

## 8. Counterparty Risk

The Bank does not have any material counterparty exposure to financial guarantors, investment banks or derivative counterparties. The Bank conservatively manages its counterparty credit risk exposures by setting internal limits on total exposure, term and ratings for each of the counter parties.

The following table presents the Bank's possible counterparty exposure by type as at September, 2015:

	Risk Weight	September 30,	
		2015	2014
Deposits with Regulated Financial Institutions	20%	\$ 8,711	\$ 29,236
Government Issued or Guaranteed Securities	0%	\$ 2,000	-

## 9. Securitization Risk

The Bank has no securitization risk as it does not securitise any of its credit card portfolios.

## 10-11. Market Risk

Market risk is defined as loss resulting from changes in interest rates, market prices or foreign exchange rates. The bank assesses market risk by means of management oversight. The Bank's principal risk arises from interest rate risk and is discussed in section 14.



## 12. Operational Risk

Operational risk is defined as loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank recognizes that operational risk is potentially significant. To measure its Operational Risk the Bank uses Basic Indicator Approach and Operational Risk Self-Assessments that include status meetings designed to identify and assess the top operational risks and where additional mitigation and controls may be required.

## 13. Equities

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

## 14. Interest Rate Risk

The Bank is exposed to interest rate risk through possible rate and term mismatch of credit card loans against its funding sources. ALCO monitors this potential mismatch, as well as interest rate environment in Canada, and reports to the Board.

Under current agreement with the Parent the Bank obtains its necessary financing through a demand promissory note at a fixed rate. This substantially mitigates the Bank's exposure to interest rate risk.

The Bank regularly evaluates its ability to withstand fluctuation of the interest rates. The Bank is mostly sensitive to the upward interest rate shocks. A 200 bps upward parallel shift in interest rates will result in 44%, 41% and 37% decrease in Net Interest Income over the next three years, as determined by the Bank's ICAAP.

## Liquidity Risk

Liquidity risk is the risk that the Bank will not be able to meet financial commitments and obligations when due or may incur significant costs in meeting those 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 Bank holds liquid assets in the form of high quality securities and balances with Canadian banks in order to meet its regulatory liquidity adequacy obligations, operational needs and maintain a stock of unencumbered High Quality Liquid Assets ("HQLA") as a defense against the potential onset of liquidity stress. As at September 30, 2015 the balance of HQLA was \$2M.

Currently, the Parent is the sole source of liquidity for the Bank. ALCO monitors both short-term and long-term liquidity needs. A liquidity contingency policy is in place to ensure funding procedures are sustained during a crisis.

### **Human Resources Risk**

Due to the Bank's highly outsourced business structure and early stage of growth, the actual full-time personnel and executive level management is limited in size. Departure of a single key person could cause a significant operational disruption. To mitigate this, the Bank has defined clear contingency plans, including succession plans, for key roles. In addition, the Bank's executive leadership team members have very broad backgrounds and experience and hence would be able to mitigate most business disruptions caused by a key executive departure.

## Appendix A: Basel III Common Disclosures

The Basel III Pillar 3 public capital disclosure requirements are intended to improve both the transparency and comparability of the Bank's capital positions. The following table is prepared using the modified Capital Disclosure template proposed by OSFI as defined in July 2013 Advisory on Public Capital Disclosure Requirements Annex 5. The data reported are in thousands of Canadian dollars and as at September 30, 2015

Capital Disclosure as at September 30, 2015		All-in
<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	55,000
2	Retained earnings	(36,161)
3	Accumulated other comprehensive income (and other reserves)	
4	<i>Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)</i>	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	
<b>Common Equity Tier 1 capital: regulatory adjustments</b>		
28	Total regulatory adjustments to Common Equity Tier 1	(7,715)
29	<b>Common Equity Tier 1 capital (CET1)</b>	<b>11,124</b>
<b>Additional Tier 1 capital: instruments</b>		
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	<i>Directly issued capital instruments subject to phase out from Additional Tier 1</i>	
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	<b>Additional Tier 1 capital before regulatory adjustments</b>	-
<b>Additional Tier 1 capital: regulatory adjustments</b>		
43	<b>Total regulatory adjustments to Additional Tier 1 capital</b>	
44	<b>Additional Tier 1 capital (AT1)</b>	
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>11,124</b>
<b>Tier 2 capital: instruments and allowances</b>		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	
47	<i>Directly issued capital instruments subject to phase out from Tier 2</i>	
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)	
49	of which: instruments issued by subsidiaries subject to phase out	
50	Collective allowances	
51	<b>Tier 2 capital before regulatory adjustments</b>	-
<b>Tier 2 capital: regulatory adjustments</b>		

57	<b>Total regulatory adjustments to Tier 2 capital</b>	
58	<b>Tier 2 capital (T2)</b>	
59	<b>Total capital (TC = T1 + T2)</b>	<b>11,124</b>
60	<b>Total risk-weighted assets</b>	<b>19,579</b>
<b>Capital ratios</b>		
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	<b>57%</b>
62	Tier 1 (as percentage of risk-weighted assets)	<b>57%</b>
63	Total capital (as percentage of risk-weighted assets)	<b>57%</b>
<b>OSFI all-in target</b>		
69	Common Equity Tier 1 capital all-in target ratio	<b>20%</b>
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)</b>		
80	<i>Current cap on CET1 instruments subject to phase out arrangements</i>	-
81	<i>Amounts excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	-
82	<i>Current cap on AT1 instruments subject to phase out arrangements</i>	-
83	<i>Amounts excluded from AT1 due to cap (excess over cap after redemptions and maturities)</i>	-
84	<i>Current cap on T2 instruments subject to phase out arrangements</i>	-
85	<i>Amounts excluded from T2 due to cap (excess over cap after redemptions and maturities)</i>	-