



Rogers Bank

Basel III Pillar 3 Disclosures

As at June 30, 2017

Table of Contents

1. Scope of Application 2
 Reporting Entity 2
 Risk Management Framework 2
2-3. Capital Structure and Adequacy 3
 Regulatory Capital Position 3
 Calculation of Risk-Weighted Assets 3
4-6. Credit Risk 4
 Credit Concentration Risk 6
7. Credit Risk Mitigation 7
8. Counterparty Risk 7
9. Securitization Risk 7
10-11. Market Risk 7
12. Operational Risk 8
13. Equities 8
14. Interest Rate Risk 8
Liquidity Risk 8
Appendix A: Basel III Common Disclosures 10
Appendix B: Leverage Ratio Disclosures 12

1. Scope of Application

This document embodies the Pillar 3 disclosures for Rogers Bank (the “Bank”) as at June 30, 2017 pursuant to the Pillar 3 Disclosure Requirements by the Office of the Superintendent of Financial Institutions’ (“OSFI”).

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 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 offers two consumer rewards credit card products: Rogers Platinum Mastercard and Fido Mastercard. 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 Enterprise Risk Management Committee (“ERMC”), Asset and Liability Committee (“ALCO”) and Credit Risk Committee (“CRC”) 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 requirements determined by ICAAP as well as to regulatory capital requirements. The risk quantification process, including stress testing, serves to model potential risks facing the business from both a strategic and capital requirement perspective.

Risks are monitored and communicated to the Board periodically. Based on risk monitoring, risk probabilities and the 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 ERMC, 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 both 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 funding for the required capital from its Parent. This financial backing insulates the Bank from unexpected events and helps support business growth and strategies.

Regulatory Capital Position

The Bank calculates its regulatory capital by managing its Credit risk using the Standardized Approach and it monitors 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 the capital base. In addition, there is a regular review of the Capital Management policies by the Board.

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

Calculation of Risk-Weighted Assets

Risk-weighted Assets have 2 components – Credit and Operational Risks:

- The Credit Risk component consists of Cash and Deposits weighted at 20% (\$2.6M as at June 30, 2017), Net Card Receivables are weighted at 75% (\$97.4M) and Other Assets are weighted at 100% (\$0.4M). Generally, Government Securities and Intangible Fixed Assets are weighted at 0% and, therefore are excluded from this calculation.
- The Operational Risk component is derived from the average Revenue for the last three years at alpha of 15% and multiplier of 12.5 (\$13.6M). Total Risk-Weighted Assets are \$114.1M as at June 30, 2017.

The following table shows the Bank's Capital Position in CAD\$'000 as at June 30, 2017:

| Total Capital | | |
|-----------------------------|---|----------------|
| 1 | Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus | 135,000 |
| 2 | Retained earnings | (87,909) |
| 28 | Total regulatory adjustments to Common Equity Tier 1 | (13,523) |
| 29 | Common Equity Tier 1 capital (CET1) | 33,568 |
| 45 | Tier 1 capital (T1 = CET1 + AT1) | 33,568 |
| 59 | Total capital (TC = T1 + T2) | 33,568 |
| Risk-weighted assets | | |
| 60 | Total risk-weighted assets | 114,063 |
| Capital ratios | | |
| 61 | Common Equity Tier 1 (as percentage of risk-weighted assets) | 29% |
| 62 | Tier 1 (as percentage of risk-weighted assets) | 29% |
| 63 | Total capital (as percentage of risk-weighted assets) | 29% |
| OSFI all-in target | | |
| 69 | Common Equity Tier 1 capital all-in target ratio | 7% |
| 70 | Tier 1 capital all-in target ratio | 8.5% |
| 71 | Total capital all-in target ratio | 10.5% |

The Bank's detailed capital position under Basel III as at June 30, 2017 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. In the case of the Bank, the Credit risk arises primarily through the Bank's credit card loans to customers.

Oversight of Credit Risk Management resides with the Board. The CRC, under the oversight of the Board, monitors and approves the credit risk management program on a day to day basis.

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. These policies include credit assessment criteria, risk grading and reporting, documentation and compliance for legal, regulatory or statutory requirements.
- Development and roll out of effective credit granting, account management and collections processes. These processes include approval authority management, diversification of credit limits, credit risk assessment, credit application evaluation, fraud identification and management, as well as write-offs.
- Ensuring there are 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 June 30, 2017:

| Credit Limit | % of Total Number of Accounts | % of Total Receivables |
|-------------------------------|--------------------------------------|-------------------------------|
| Less than or equal to \$1,000 | 19% | 8% |
| \$1,001 - \$5,000 | 56% | 51% |
| \$5,001 - \$10,000 | 17% | 30% |
| \$10,001 and over | 8% | 11% |
| Total | 100% | 100% |

The following table presents the percentage of the Bank’s credit card loan portfolio by Account Balance as at June 30, 2017:

| Account Balance | % of Total Number of Accounts | % of Total Receivables |
|-------------------------------|--------------------------------------|-------------------------------|
| Less than or equal to \$2,000 | 91% | 43% |
| \$2,001 - \$5,000 | 8% | 39% |
| \$5,001 - \$9,999 | 1% | 16% |
| \$10,000 and over | <1% | 2% |
| Total | 100% | 100% |

The following table presents the percentage of the Bank’s credit card loan portfolio by Delinquency Buckets as at June 30, 2017:

| Delinquency Buckets | % of Total Number of Accounts | % of Total Receivables |
|----------------------------|--------------------------------------|-------------------------------|
| Current to 30 days | 99% | 97% |
| 31 – 60 days | <1% | 1% |
| 61 – 90 days | <1% | <1% |
| 90+ days past due | <1% | 1% |
| Total | 100% | 100% |

Allowance for loan losses

The Bank maintains an allowance for Loan losses (the “allowance”) that represents management’s best estimate of the incurred credit losses inherent in the loan portfolio.

This allowance is increased through a provision for loan losses (the “provision”) and reduced by net charge-offs. (A charge off is defined as when a credit card loan payment is in arrears for 180 days+ or where the likelihood of collection is considered remote)

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 any subsequent recoveries are added.

In determining the allowance, loans in the Bank’s portfolio with similar credit risk characteristics are grouped into loan pools. Monthly analysis of these pools is completed to determine if impairment has occurred and to assess the adequacy of the allowance based on the current trends and other factors which affect credit losses.

A systematic approach (fully documented) is taken to determine the allowance for the portfolio. The allowance consists of components to cover the estimated probable losses based on the results of the detailed review and loan impairment assessment process.

The formula-based component for the allowance is based on a statistical calculation. Given the consistent 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. The Loss forecast model then incorporates the impact of current external factors which are expected to remain constant.

The following table presents a summary of changes in the allowance for loan losses in thousands of Canadian dollars for the quarter ending on June 30, 2017:

| | Amount |
|---|-----------------|
| Allowance for loan losses, beginning of the quarter | \$ 3,919 |
| Provision for loan losses | 2,062 |
| Charge-offs | (1,503) |
| Recoveries | 48 |
| Allowance for loan losses, end of the quarter | <u>\$ 4,526</u> |

Credit Concentration Risk

Inherent in the credit card portfolio is asset concentration risk. To mitigate this risk, the Bank developed its Credit Risk policy to ensure diversification in the portfolio, with written guidelines in the policy. This policy as per standard Bank operations was approved by the Board.

As part of the process, there is on-going monitoring and the level of monitoring is at a provincial and regional level to ensure factors unique to specific locations are fully assessed and taken into consideration. Given that the customer base is diverse and resides throughout Canada, this regional assessment plays a pivotal role.

The following table presents the percentage of the Bank's credit card loan portfolio by Province of cardholder residence as at June 30, 2017:

| Province | % of Total Number of Accounts | % of Total Receivables |
|------------------|--------------------------------------|-------------------------------|
| Ontario | 64% | 65% |
| British Columbia | 12% | 12% |
| Quebec | 11% | 9% |
| Alberta | 6% | 7% |
| Other | 7% | 7% |
| 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. A conservative approach is taken in managing counterparty credit risk exposures by setting internal limits on total exposure, term and ratings for each of the counter parties.

The following table shows the Bank's possible counterparty exposure by type in CAD\$'000 as at June 30, 2017:

| | Risk Weight | Amount |
|--|--------------------|---------------|
| Deposits with Regulated Financial Institutions | 20% | \$ 13,132 |
| Government Issued or Guaranteed Securities | 0% | \$ 10,490 |

9. Securitization Risk

The Bank has no securitization risk as it does not securitize 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's Market risk arises from interest rate risk and is discussed in section 14. Management monitors and provides oversight of Market risk.

12. Operational Risk

Operational risk is defined as loss resulting from inadequate or failed internal processes, people and systems or from external events. To measure its Operational Risk the Bank uses the Basic Indicator Approach and Operational Risk Self-Assessments. As part of this approach, there are regular operational status meetings designed to identify and assess the top operational risks and to agree on any additional mitigation and controls that may be required.

These measures are necessary as the Bank recognizes that any operational risk could have a significant impact on the business

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 between credit card loans and funding. ALCO monitors this potential mismatch, as well as interest rate changes. ALCO reports to the Board.

The current funding arrangement stipulates that the Bank will receive its financing through a demand promissory note at a fixed rate from the Parent. This mitigates most of the Bank's exposure to interest rate risk.

However, the Bank regularly evaluates its ability to withstand fluctuations in interest rates. Any increases in interest rates will impact the bank. An example - a 200 bps increase in rates will result in 13%, 24% and 45% 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 at all times. Long-range planning and forecasting tools are in place 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 June 30, 2017 the balance of HQLA was \$10.5M.

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.

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 reported data are in CAD\$'000 and as at June 30, 2017.

| Capital Disclosure | | All-in |
|---|--|---------------|
| 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 | 135,000 |
| 2 | Retained earnings | (87,909) |
| 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) | |
| Common Equity Tier 1 capital: regulatory adjustments | | |
| 28 | Total regulatory adjustments to Common Equity Tier 1 | (13,523) |
| 29 | Common Equity Tier 1 capital (CET1) | 33,568 |
| 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 | |
| 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 | Additional Tier 1 capital before regulatory adjustments | - |
| Additional Tier 1 capital: regulatory adjustments | | |
| 43 | Total regulatory adjustments to Additional Tier 1 capital | |
| 44 | Additional Tier 1 capital (AT1) | |
| 45 | Tier 1 capital (T1 = CET1 + AT1) | 33,568 |
| Tier 2 capital: instruments and allowances | | |
| 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 | Tier 2 capital before regulatory adjustments | - |
| Tier 2 capital: regulatory adjustments | | |

| | | |
|--|---|----------------|
| 57 | Total regulatory adjustments to Tier 2 capital | |
| 58 | Tier 2 capital (T2) | |
| 59 | Total capital (TC = T1 + T2) | 33,568 |
| 60 | Total risk-weighted assets | 114,063 |
| Capital ratios | | |
| 61 | Common Equity Tier 1 (as percentage of risk-weighted assets) | 29% |
| 62 | Tier 1 (as percentage of risk-weighted assets) | 29% |
| 63 | Total capital (as percentage of risk-weighted assets) | 29% |
| OSFI all-in target | | |
| 69 | Common Equity Tier 1 capital all-in target ratio | 7% |
| 70 | Tier 1 capital all-in target ratio | 8.5% |
| 71 | Total capital all-in target ratio | 10.5% |
| Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022) | | |
| 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> | - |

Appendix B: Leverage Ratio Disclosure

The Leverage ratio is a transparent non-risk based ratio that acts as a supplementary measure to the risk-based capital requirements. The following table is prepared using the BCBS LR Framework and OSFI's Leverage Requirements Guideline as defined in September 2014 Advisory on Public Disclosure Requirements related to Basel III Leverage Ratio Annex 1 (revised on November 2014).

The reported data are CAD\$'000 as at June 30, 2017.

| Leverage Ratio Disclosure | | All-in |
|--|--|----------------|
| On-balance sheet exposures | | |
| 1 | On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral) | 167,457 |
| 2 | (Asset amounts deducted in determining Basel III "all-in" Tier 1 capital) | (13,523) |
| 3 | Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2) | 153,933 |
| 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 assets pursuant to the operative accounting framework | |
| 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) | - |
| 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) | - |
| Other off-balance sheet exposures | | |
| 17 | Off-balance sheet exposure at gross notional amount | 658,027 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (592,224) |
| 19 | Off-balance sheet items (sum of lines 17 and 18) | 65,803 |
| Capital and Total Exposures | | |
| 20 | Tier 1 capital | 33,568 |
| 21 | Total Exposures (sum of lines 3, 11, 16 and 19) | 219,736 |
| Leverage Ratios | | |
| 22 | Basel III leverage ratio | 15% |