



Rogers Bank

Basel III Pillar 3 Disclosures

As at June 30, 2022

Table of Contents

1. Scope of Application2
 Reporting Entity2
 Risk Management Framework2
 COVID-192
2-3. Capital Structure and Adequacy3
 Regulatory Capital Position3
 Calculation of Risk-Weighted Assets3
 Basel III Common Disclosures4
 Leverage Ratio Disclosure5
4-6. Credit Risk6
 Credit Concentration Risk7
7. Credit Risk Mitigation7
8. Counterparty Risk8
9. Securitization Risk8
10-11. Market Risk8
12. Operational Risk8
13. Equity Risk8
14. Interest Rate Risk8
Liquidity Risk9

1. Scope of Application

This document presents the Pillar 3 disclosures for Rogers Bank (the “Bank”) pursuant to the Pillar 3 Disclosure Requirements by the Office of the Superintendent of Financial Institutions (“OSFI”) issued in April 2017.

As part of Basel framework, Pillar 3 (Market Discipline) sets disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the Bank.

The Bank is a small and medium-sized deposit-taking institution (“SMSB”) and the content of the disclosures are tailored to the nature, size and complexity of the Bank. This report is unaudited and is reported in thousands of Canadian Dollars, unless otherwise noted.

The report is available in the Legal section of the Bank’s website at www.rogersbank.com.

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. (“RCI”). The Bank received orders to commence and carry on business on August 23, 2013.

The Bank operates four consumer rewards credit card products: Rogers World Elite Mastercard, Rogers Platinum Mastercard, Fido Mastercard and chatr Mastercard. The Bank records the credit card receivables and associated funding on its balance sheet.

Risk Management Framework

The Bank’s Board of Directors (the “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”) is 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 faces. It is used to ensure that the quality and quantity of capital is sufficient and adequate. The results of the Bank’s ICAAP help ensure that the Bank is adequately capitalised.

COVID-19

In Q1 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. On March 27, OSFI announced a series of regulatory adjustments to support the financial and operational resilience of federally regulated banks, insurers and private pension plans. This includes adjusting a number of regulatory capital, liquidity and reporting requirements. As a result, the Bank implemented the following changes:

(1) sovereign-issued securities were excluded from the leverage ratio exposure measure (up to December 31, 2021);

(2) loans granted payment deferrals (enrollments before September 30, 2020) were treated as performing under the Capital Adequacy Requirement; and

(3) Tier 1 capital included the transitional arrangements for expected credit loss provisioning. Tier 1 capital has been adjusted to include the after-tax difference of the Stage 1 and Stage 2 allowances between a reporting period and December 31, 2019 subject to a scaling factor (70% in fiscal 2020, 50% in fiscal 2021, and 25% in fiscal 2022).

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 shareholder returns and the security afforded by a sound capital position.

The Bank has committed sources of funding for the required capital from RCI. This financial backing insulates the Bank from unexpected events and helps support business growth and strategy.

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 and Tier 2 capital. Tier 1 capital includes common share capital and retained earnings. As at June 30, 2022 the Bank had 285 million common shares issued and outstanding. Tier 2 capital includes a portion of the Bank's Stage 1 and Stage 2 Allowance for Loan Losses, up to a maximum of 1.25% of Credit Risk-Weighted Assets.

Calculation of Risk-Weighted Assets

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. Total Risk-Weighted Assets are \$436.3M as at June 30, 2022. Risk-weighted Assets have two components - Credit and Operational Risks.

The Credit Risk component consists of:

- Cash and Deposits are weighted at 20% (\$5M);
- Net Card Receivables are weighted at 75% (\$315.1M);
- Other Assets are weighted at 100% (\$4.8M); and
- Government Securities 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 (\$111.5M).

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 reported data is as at June 30, 2022.

| Capital Disclosure | | |
|---|---|----------------|
| 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 | 285,000 |
| 2 | Retained earnings | (194,383) |
| 6 | Common Equity Tier 1 capital before regulatory adjustments | 90,617 |
| Common Equity Tier 1 capital: regulatory adjustments | | |
| 28 | Total regulatory adjustments to Common Equity Tier 1 | (20,133) |
| 29 | Common Equity Tier 1 capital (CET1) | 70,484 |
| 29a | Common Equity Tier 1 capital (CET1) with transitional arrangements for ECL provisioning not applied | 68,675 |
| Additional Tier 1 capital: instruments | | |
| 36 | Additional Tier 1 capital before regulatory adjustments | - |
| Additional Tier 1 capital: regulatory adjustments | | |
| 45 | Tier 1 capital (T1 = CET1 + AT1) | 70,484 |
| 45a | Tier 1 capital with transitional arrangements for ECL provisioning not applied | 68,675 |
| Tier 2 capital: instruments and allowances | | |
| 50 | Collective allowances | 23,431 |
| 51 | Tier 2 capital before regulatory adjustments | 23,431 |
| Tier 2 capital: regulatory adjustments | | |
| 57 | Total regulatory adjustments to Tier 2 capital | (21,179) |
| 58 | Tier 2 capital (T2) | 2,251 |
| 58a | Tier 2 capital with transitional arrangements for ECL provisioning not applied | 4,060 |
| 59 | Total capital (TC = T1 + T2) | 72,736 |
| 59a | Total capital with transitional arrangements for ECL provisioning not applied | 72,736 |
| 60 | Total risk-weighted assets | 436,325 |
| Capital ratios | | |
| 61 | Common Equity Tier 1 (as percentage of risk-weighted assets) | 16.15% |
| 62 | Tier 1 (as percentage of risk-weighted assets) | 16.15% |
| 63 | Total capital (as percentage of risk-weighted assets) | 16.67% |

| Capital ratios with transitional arrangements for ECL provisioning not applied | | |
|---|--|--------|
| 61a | Common Equity Tier 1 (as percentage of risk-weighted assets) | 15.74% |
| 62a | Tier 1 (as percentage of risk-weighted assets) | 15.74% |
| 63a | Total capital (as percentage of risk-weighted assets) | 16.67% |
| 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% |

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 reported data is as at June 30, 2022.

| Leverage Ratio Disclosure | | |
|---|--|----------------|
| On-balance sheet exposures | | |
| 1 | On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral) | 471,334 |
| 4 | (Asset amounts deducted in determining Tier 1 capital) | (21,942) |
| 5 | Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 to 4) | 449,391 |
| Derivative exposures | | |
| 11 | Total derivative exposures (sum of lines 4 to 10) | - |
| Securities financing 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 | 1,395,312 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (1,255,781) |
| 19 | Off-balance sheet items (sum of lines 17 and 18) | 139,531 |
| Capital and Total Exposures | | |
| 20 | Tier 1 capital | 70,484 |
| 20a | Tier 1 capital with transitional arrangements for ECL provisioning not applied | 68,675 |
| 21 | Total Exposures (sum of lines 5, 11, 16 and 19) | 588,923 |
| Leverage Ratio | | |
| 22 | Basel III leverage ratio | 11.97% |
| 22a | Leverage ratio with transitional arrangements for ECL provisioning not applied | 11.66% |

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, credit risk arises through the Bank's credit card loans to customers.

Oversight of credit risk management resides with the Board. The ERMCM monitors and approves credit risk initiatives that align with the Bank's strategy and risk appetite or recommends to the Board for approval.

Portfolio metrics

The following table presents the percentage of the Bank's credit card loan portfolio by credit limit as at June 30, 2022:

| Credit Limit | % of Total Number of Accounts | % of Total Receivables |
|-------------------------------|--------------------------------------|-------------------------------|
| Less than or equal to \$1,000 | 10% | 2% |
| \$1,001 - \$5,000 | 41% | 22% |
| \$5,001 - \$10,000 | 30% | 33% |
| \$10,001 and over | 19% | 43% |
| Total | 100% | 100% |

The following table presents the percentage of the Bank's credit card loan portfolio by Account Balance as at June 30, 2022:

| Account Balance | % of Total Number of Accounts | % of Total Receivables |
|-------------------------------|--------------------------------------|-------------------------------|
| Less than or equal to \$1,000 | 63% | 7% |
| \$1,001 - \$5,000 | 28% | 44% |
| \$5,001 - \$10,000 | 7% | 32% |
| \$10,001 and over | 2% | 17% |
| Total | 100% | 100% |

The following table presents the percentage of the Bank's credit card loan portfolio by Delinquency Buckets as at June 30, 2022:

| Delinquency Buckets | % of Total Number of Accounts | % of Total Receivables |
|----------------------------|--------------------------------------|-------------------------------|
| Current to 30 days | 99% | 98% |
| 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 probability-weighted estimate of the expected credit losses in the loan portfolio. The allowance is increased through a provision for loan losses and reduced by net charge-offs. A credit card loan is charged-off when a payment is in arrears for 180+ days, or when the probability of collection is low.

The Bank adopted IFRS 9 on January 1, 2019. The allowance is determined using an Expected Credit Loss (“ECL”) model. The model uses macroeconomic forecasts across multiple scenarios, factors and forward-looking indicators.

The following table presents a summary of changes in the allowance for loan losses for the quarter ended June 30, 2022:

| | Amount |
|---|-----------------|
| Allowance for loan losses, beginning of the quarter | \$27,613 |
| Provision for loan losses | 4,261 |
| Charge-offs | (4,479) |
| Recoveries and other adjustments | 836 |
| Allowance for loan losses, end of the quarter | <u>\$28,231</u> |

Credit Concentration Risk

Inherent in the credit card portfolio is concentration risk. To mitigate this risk, the Bank developed its Credit Risk Policy to ensure an appropriate level of diversification in the portfolio.

The following table presents the percentage of the Bank’s credit card loan portfolio by province of cardholder residence as at June 30, 2022:

| Province | % of Total Number of Accounts | % of Total Receivables |
|------------------|--|-----------------------------------|
| Ontario | 56% | 58% |
| British Columbia | 17% | 16% |
| Quebec | 12% | 9% |
| Alberta | 9% | 10% |
| Other | 6% | 7% |
| Total | <u>100%</u> | <u>100%</u> |

7. Credit Risk Mitigation

The Bank’s loan portfolio consists exclusively of credit card loans. These 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 counterparties.

The following table shows the Bank's possible counterparty exposure by type as at June 30, 2022:

| | Risk Weight | Amount |
|--|--------------------|---------------|
| Deposits with Regulated Financial Institutions | 20% | \$25,008 |
| Government Issued or Guaranteed Securities | 0% | \$22,958 |

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 the risk of losses arising from adverse movements in market prices. Normally, the risk stems from all the positions included in a bank's trading book as well as from commodity and foreign exchange risk positions on its balance sheet. The Bank does not have any trading book portfolios and has minimal exposure to market risk from its high-quality liquid assets portfolio.

12. Operational Risk

Operational Risk is defined as the risk of losses 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.

13. Equity Risk

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

The current funding arrangement provides that the Bank will receive financing from RCI. This mitigates most of the Bank's exposure to interest rate risk. However, the Bank regularly evaluates the effect of fluctuations in interest rates, and its ability to withstand such changes.

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 cash management governance, policies, and procedures are in place. Currently, RCI is the sole source of liquidity for the Bank. ERMC monitors both short-term and long-term liquidity needs. A Liquidity and Funding Policy and Contingency Funding Plan are in place to ensure funding procedures are maintained during a crisis.

The Bank holds liquid assets in the form of high-quality securities and balances with Canadian banks in order to meet its regulatory obligations, operational needs and to maintain a stock of unencumbered High Quality Liquid Assets (“HQLA”) as a defense against the potential onset of liquidity stress. As at June 30, 2022 the balance of HQLA was \$23.0M.