President's Choice Bank

BASEL II PILLAR 3 DISCLOSURES

June 30, 2013

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TABLE 1 – OVERVIEW & SCOPE OF APPLICATION

This document represents the Basel II Pillar 3 disclosures for President's Choice Bank ("PC Bank" or the "Company"). These disclosures are made pursuant to OSFI's Pillar 3 Disclosure Requirements issued in November 2007, pursuant to the Basel Committee on Banking Supervisions update on "Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework – Comprehensive Version" issued in June 2006. Basel II is structured around 3 pillars:

- Pillar 1: Minimum Capital Requirements
- Pillar 2: The Supervisory Review Process
- Pillar 3: Market Discipline

Pillar 3 complements both Pillars 1 and 2, by setting 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 PC Bank.

OSFI requires all institutions to implement the Basel III framework, and the new composition of capital disclosure requirements. This document presents capital structure and adequacy calculation based on Basel III guideline on both an "All-in" basis (after the transition period for the phasing-in of deductions ends on January 1, 2018) and a "Transitional" basis (before January 1, 2018) as per OSFI requirement.

This report is unaudited and is reported in Thousands of Canadian Dollars, unless otherwise disclosed.

Presidents Choice Bank Overview

PC Bank is a Schedule I Canadian chartered bank governed by the *Bank Act (Canada)* and is an indirectly wholly owned subsidiary of Loblaw Companies Limited (LCL). In association with other financial institutions, PC Bank offers, under the President's Choice Financial® brand, a complete line of retail financial services products to individuals who reside in Canada. The key business lines of PC Bank are as follows:

Credit Card

PC Bank launched its credit card program in 2001 and currently offers the *President's Choice Financial* MasterCard (PC MasterCard) across Canada. The product attributes include no annual fee and a competitive rewards program which allows customers to earn and redeem PC Points for free groceries at LCL stores. PC Bank records the credit card receivables and associated funding on its balance sheet.

Core Banking

PC Bank launched its core banking business in 1998 through a strategic partnership with a major Canadian Chartered Bank ("Strategic Partner"). Under the President's Choice Financial brand, retail banking products are sold online and in LCL stores at banking pavilions operated by the Strategic Partner. All deposits, investments and lending products issued under the PC Financial brand are recorded by the Strategic Partner on its balance sheet. PC Bank earns interest income and fees through this partnership.

GIC's

PC Bank launched a broker originated GIC program in 2010. The GIC's offered by PC Bank are insured by Canadian Deposit Insurance Corporation (CDIC). PC Bank sells nominee name GIC's through a number of brokers in Canada.

PC Bank Risk Management

PC Bank calculates its regulatory capital based on the following methodologies:

- PC Bank manages its credit risk using the standardized approach
- PC Bank is not exposed to market risk as the company does not enter into interest rate, equity, foreign exchange or commodities based derivatives; and
- PC Bank's operational risk is monitored using the Basic Indicator Approach.

PC Bank has implemented a comprehensive Internal Capital Adequacy Assessment Process ("ICAAP") to identify and assess the material risks that PC Bank faces to ensure that sufficient quality and quantity of capital is available. PC Bank is confident that the Pillar I and Pillar II calculations are appropriate given the PC Bank's business model, inherent risks, internal controls and tools to manage risks and residual risks. The results of the ICAAP performed by President's Choice Bank (PC Bank) conclude that PC Bank is strongly capitalized.

The guiding principles of ICAAP are summarized below:

- ***Proportionality*****:** The design of the Bank's ICAAP is proportionate to the risk level, complexity and scale of PC Bank's activities.
- ***Forward Looking****:* In the process of ICAAP, PC Bank considers not only the existing risks faced but also the emerging risks and future business strategies.
- ***Ongoing exercise:*** PC Bank's ICAAP is not a static one-time process but rather a dynamic and continuous exercise to ensure that the PC Bank has robust risk management systems and possesses sufficient capital at all times for risks.
- ***Evolving-nature*****:** ICAAP is continuously monitored for improvement in accordance with changes to the risk profile and business plans of PC Bank.
- ***Use test*****:** The methodology and risk limit structures used to measure and compute risk under ICAAP is integrated within the day to day risk practices of PC Bank through the ERM risk monitoring program. Specific limits and tolerances are monitored for capital & capital ratios on a monthly basis by the ERMC to ensure that PC Bank stays within it risk appetite for all capital risks including those relating to ICAAP.

Corporate Governance

The Company maintains a rigorous corporate governance structure as follows:

- Board of Director's Oversight
  - Risk Committee
  - Audit Committee
  - Conduct Review Committee
  - Governance Committee

- Senior Management Oversight through the following:
  - **Asset Liability Committee (ALCO) –** ensures prudent balance sheet management by ensuring that PC Bank has the appropriate quantity and quality of capital, considering its strategic direction & business plans, its risk profile, its emerging risks and stress tests.
  - **Enterprise Risk Management Committee (ERMC) –** provides stewardship over the identification, definition, assessment, management, control, measurement, monitoring and reporting of PC Bank's enterprise risks.
  - **Credit Risk and Fraud Management Committee (CRFMC) –** provides a governance structure that oversees the Credit Risk Management program, including a corporate risk vision with a defined risk appetite and program standards specific to Credit Risk Management.
  - **Internal Audit (IAS) –** improves PC Bank's operations by providing independent assurance on the control environment, by using a risk based audit approach.
  - **Anti-Money Laundering and Anti-Terrorist Financing Committee (AML/ATF) –** provides a governance structure that oversees PC Bank's AML/ATF program, guiding the development of a methodology and tools to identify, define, assess, manage, control, measure, monitor, and report AML/ATF risks, while mitigating AML/ATF risks in accordance with PC Bank's established risk appetite.

TABLE 2/3– CAPITAL STRUCTURE AND ADEQUACY

QUALITATIVE DISCLOSURES

Gross Common Equity Tier I Capital

The capital structure of PC Bank consists of the following which combine to form PC Bank's Gross Common Equity Tier I Capital:

- Common Shares;
- Retained Earnings; and
- Contributed Surplus

The Company is a wholly owned subsidiary of Loblaw Companies Limited. The Company has authorized an unlimited number of common shares without par value. As at June 30, 2013, PC Bank had 42,002 common shares issued and outstanding.

QUANTITATIVE DISCLOSURES

Total Capital

All-in Basis	June 30, 2012	Sep 30, 2012	Dec 31, 2012	Mar 31, 2013	June 30, 2013
Common Share	42,002	42,002	42,002	42,002	42,002
Retained Earnings	360,426	384,610	423,115	452,981	484,459
Contributed Surplus	5,410	5,410	5,410	5,410	5,410
Gross Common Equity Tier 1 capital per Basel III				500,393	531,871
Regulatory Adjustments Applied to Common Equity Tier 1 per Basel III				(3,969)	(2,318)
Common Equity Tier 1 Capital (CET1) (A)				496,424	529,553
Additional Tier 1 capital	-	-	-	-	-
Total Tier 1 capital (B)	407,838	432,022	470,527	496,424	529,553
Total Capital (C)	**407,838**	**432,022**	**470,527**	**496,424**	**529,553**

Transitional Basis

	June 30, 2012	Sep 30, 2012	Dec 31, 2012	Mar 31, 2013	June 30, 2013
All in Common Equity Tier 1 Capital (CET1) (A)				496,424	529,553
Transitional Adjustments				3,969	2,318
Common Equity Tier 1 Capital (CET1) (A')				500,393	531,871
Total Tier 1 capital (B')				500,393	531,871
Total Capital (C')				**500,393**	**531,871**

Risk Weighted Assets Calculation (Standard Approach)

All-in Basis

	June 30, 2012	Sep 30, 2012	Dec 31, 2012	Mar 31, 2013	June 30, 2013
Credit Risk					
Deposits with Regulated Financial Institutions	66,923	45,163	21,912	132,097	39,825
Risk Weighted - Deposits with Regulated Financial Institutions	15,075	9,362	4,578	27,098	8,103
Other Securities - Corporate debt	-	-	-	38,472	-
Risk Weighted - Other Securities - Corporate debt	-	-	-	7,694	-
Government Treasury Bills	29,957	48,995	24,991	23,983	20,997
Risk Weighted - Government Treasury Bills	-	-	-	-	-
Credit Card Loans	608,502	663,869	830,114	700,052	860,493
Risk Weighted - Credit Card Loans	461,189	504,167	629,931	532,304	653,345
Other Assets	75,370	76,614	61,960	55,277	56,621
Risk Weighted - Other Assets	75,370	76,614	61,960	58,990	58,592
Total Risk Weighted Assets for Credit Risk	551,634	590,143	696,469	626,086	720,040
Operational Risk					
Average three-year gross income	501,679	505,415	515,535	522,257	531,590
Total Risk Weighted assets for Operational Risk	940,650	947,650	966,625	979,238	996,738
Total Risk Weighted Assets (D)	**1,492,284**	**1,537,793**	**1,663,094**	**1,605,324**	**1,716,778**

Captial Ratio	**June 30, 2012**	**Sep 30, 2012**	**Dec 31, 2012**	**Mar 31, 2013**	**June 30, 2013**
Common Equity Tier 1 Capital Ratio per Basel III - min. 3.5% (A/D)				**30.92%**	**30.85%**
Tier 1 Capital Ratio - min. 4.5% (B/D)	**27.33%**	**28.09%**	**28.29%**	**30.92%**	**30.85%**
Total Capital Ratio - min. 8% (C/D)	**27.33%**	**28.09%**	**28.29%**	**30.92%**	**30.85%**

Transitional Basis

Total Risk Weighted Assets per Basel III				1,605,324	1,716,778
Transitional Adjustments				3,969	2,318
Total Risk Weighted Assets on Transitional Basis (D')				1,609,293	1,719,096

Captial Ratio					
Common Equity Tier 1 Capital Ratio per Basel III - min. 3.5% (A'/D')				**31.09%**	**30.94%**
Tier 1 Capital Ratio - min. 4.5% (B'/D')				**31.09%**	**30.94%**
Total Capital Ratio - min. 8% (C'/D')				**31.09%**	**30.94%**

Assets to Capital Multiple

Notional Assets less Allowance for credit card losses	744,030	794,340	896,241	910,622	935,512
Securitized Assets	1,505,000	1,505,000	1,505,000	1,505,000	1,505,000
Net on-balance sheet assets (E)	2,249,030	2,299,340	2,401,241	2,415,622	2,440,512
Total Capital (C')	407,838	432,022	470,527	500,393	531,871
Assets to capital multiple (E/C')	**5.51**	**5.32**	**5.10**	**4.83**	**4.59**

TABLE 4 / 5 – CREDIT RISK

QUALITATIVE DISCLOSURES

The Credit risk associated with PC Bank's credit card portfolio is defined as the risk of financial loss resulting from the failure of a debtor, for any reason, to fully honour its financial or contractual obligations.

Through the credit card portfolio, PC Bank acts as an unsecured lender with the objective of managing a portfolio of receivables within the Board approved credit risk appetite and in accordance with the Credit Risk Management & Fraud Policy.

Within the credit card portfolio, PC Bank is exposed to credit risk through:

- Acquisition strategies and/or practices for new accounts; and
- Account management strategies and/or practices for established accounts.

Allowance for Credit Card Losses

The measurement of the allowance for credit card losses is contained within the Board of Directors' approved Allowance for Credit Risk policy. The allowance for credit card losses is established for impaired loans on the PC Bank's loan portfolio when a loss event has occurred. Objective evidence used to identify impaired loans is the cardholder entering into bankruptcy and/or defaulting/becoming delinquent on their loan obligation. Key portfolio performance metrics which impact the loan loss amount, such as monthly write-off rates as a percentage of average receivables and delinquency measures, as well as key macro-economic data are used in assessing the adequacy of the allowance for credit card losses. The allowance for credit card losses is reviewed and recommended by the Chief Risk Officer and the Chief Financial Officer to the Board of Directors for ultimate approval.

For accounting purposes, credit card loans are stated at their amortized cost, which is net of an allowance for credit card losses. Any credit card loan with a payment that is contractually 180 days in arrears, or where likelihood of collection is considered remote, is written off.

QUANTITATIVE DISCLOSURES

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

	Total Accounts			
Account Balances	Number of Accounts	Percentage of Total Accounts	Receivables Outstanding	Percentage of Total Receivables
Credit Balance	145,829	4.21%	-$ 13,594,254	-0.57%
No Balance	1,910,169	55.13%	$ -	0.00%
LT or equal $500.00	528,455	15.25%	$ 107,617,319	4.55%
$500.01 to $1000.00	251,339	7.25%	$ 186,613,783	7.89%
$1,000.01 to $3,000.00	396,082	11.43%	$ 716,093,134	30.27%
$3,000.01 to $5,000.00	127,570	3.68%	$ 491,348,250	20.77%
$5,000.01 to $10,000.00	82,359	2.38%	$ 558,700,309	23.61%
GT $10,000.00	23,041	0.66%	$ 319,122,068	13.49%
Totals	3,464,844	100.00%	$ 2,365,900,608	100.00%

	Total Accounts			
Credit Limits	Number of Accounts	Percentage of Total Accounts	Receivables Outstanding	Percentage of Total Receivables
LT or equal $500	368,231	10.63%	$ 14,740,119	0.62%
$500.01 to $1000.00	462,862	13.36%	$ 73,413,391	3.10%
$1,000.01 to $3,000.00	902,457	26.05%	$ 372,566,246	15.75%
$3,000.01 to $5,000.00	562,372	16.23%	$ 381,158,693	16.11%
$5,000.01 to $10,000.00	708,380	20.44%	$ 676,572,838	28.60%
GT $10,000.00	460,542	13.29%	$ 847,449,321	35.82%
Totals	3,464,844	100.00%	$ 2,365,900,608	100.00%

	Total Accounts			
Days Delinquent	Number of Accounts	Percentage of Total Accounts	Receivables Outstanding	Percentage of Total Receivables
Current (1)	3,381,560	97.59%	$ 2,220,727,104	93.86%
1 day to 29 days	52,733	1.52%	$ 93,868,025	3.97%
30 days to 59 days	12,132	0.35%	$ 18,571,430	0.78%
60 days to 89 days	6,069	0.18%	$ 10,309,753	0.44%
90 days to 119 days	4,686	0.14%	$ 8,165,371	0.35%
120 days to 149 days	3,932	0.11%	$ 7,413,289	0.31%
150 days to 179 days	3,708	0.11%	$ 6,768,201	0.29%
180+ days	24	0.00%	$ 77,435	0.00%
Totals	3,464,844	100.00%	$ 2,365,900,608	100.00%

Note 1: Current category includes zero balance, credit balance, and transfers accounts.

Province	Total Accounts			
	Number of Accounts	Percentage of Total Accounts	Receivables Outstanding	Percentage of Total Receivables
AB	360,656	10.41%	$ 284,973,252	12.05%
BC	441,808	12.75%	$ 285,961,040	12.09%
MB	143,252	4.13%	$ 111,299,362	4.70%
NB	52,643	1.52%	$ 36,328,233	1.54%
NL	23,881	0.69%	$ 16,982,856	0.72%
NS	96,922	2.80%	$ 70,062,988	2.96%
NT	1,270	0.04%	$ 791,432	0.03%
NU	282	0.01%	$ 146,162	0.01%
ON	1,788,620	51.62%	$ 1,281,506,105	54.17%
PE	10,674	0.31%	$ 8,041,249	0.34%
QC	456,836	13.18%	$ 200,906,497	8.49%
SK	81,062	2.34%	$ 65,719,119	2.78%
YT	3,278	0.09%	$ 2,187,694	0.09%
Other	3,660	0.11%	$ 994,620	0.04%
Totals	3,464,844	100.00%	$ 2,365,900,608	100.00%

Allowance for Credit Card Losses:

The following are the changes in the allowance for credit card losses for the 6 months ended June 30, 2013:

Allowance for Credit Card Losses, beginning of year	$ 42,736
Provision for credit card losses	48,003
Recoveries	6,818
Write-offs	(55,133)
Allowance for Credit Card Losses, June 30, 2013	$ 42,424

TABLE 8 – GENERAL DISCLOSURE FOR EXPOSURES RELATED TO COUNTERPARTY CREDIT RISK

PC Bank conservatively manages its counterparty credit risk exposures by setting internal limits on total exposure, tenor and ratings for each of the counterparties.

QUANTITATIVE DISCLOSURES

	June 30, 2012	Sep 30, 2012	Dec 31, 2012	Mar 31, 2013	June 30, 2013
Deposits with Regulated Financial Institutions	$ 66,923	$ 45,163	$ 21,912	$ 132,097	$ 39,825
Government Treasury Bills	$ 29,957	$ 48,995	$ 24,991	$ 23,983	$ 20,997

TABLE 9 – SECURITIZATION: Disclosure for standardized and IRB Approaches

QUALITATIVE DISCLOSURES

Securitization Risk is defined as the inability to secure suitable securitization arrangements for funding purposes and PC Bank's failure to meet the securitization covenant requirements. PC Bank acts as the originator and sponsor of its securitization program. PC Bank does not invest in asset backed securities or provide liquidity facilities for asset backed commercial paper.

PC Bank is dependent on its securitization program to fund a large portion of its credit card receivables. The securitization program includes following two key channels.

- Term Notes issued by Eagle Credit Card Trust. During 2010, Eagle Credit Card Trust issued $250 million of 2.88% medium term notes due in 2013 and $350 million of 3.58% medium term notes due in 2015.
- Asset Back Commercial Paper issued by Other Independent Securitization Trusts at variable rates which mature by 2015.

QUANTITATIVE ANALYSIS:
(In Millions of Canadian Dollars)

	June 30, 2012	Sep 30, 2012	Dec 31, 2012	Mar 31, 2013	June 30, 2013
Credit card receivables	$ 2,058	$ 2,129	$ 2,292	$ 2,162	$ 2,323
Securitized to Eagle Credit Card Trust	$ 600	$ 600	$ 600	$ 600	$ 600
Securitized to Other Independent Securitization Trusts	$ 905	$ 905	$ 905	$ 905	$ 905

Eagle Credit Card Trust - Ratings Information

	DBRS Limited Ratings	ody's Investors Services, Inc Rati
Eagle Series 2010-1 Class A Notes	AAA (sf)	Aaa (sf)
Eagle Series 2010-1 Class B Notes	A (sf)	A2 (sf)
Eagle Series 2010-1 Class C Notes	BBB (sf)	Baa2 (sf)
Eagle Series 2010-2 Class A Notes	AAA (sf)	Aaa (sf)
Eagle Series 2010-2 Class B Notes	A (sf)	A2 (sf)
Eagle Series 2010-2 Class C Notes	BBB (sf)	Baa2 (sf)

TABLE 12 – OPERATIONAL RISK

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Key operational risks considered include Partnering/Outsourcing, Business Interruption, Information Security, Regulatory, Litigation, and Strategic & Execution. PC Bank's ERMC is responsible for the oversight of operational risk, with assistance from various internal business groups and internal control and compliance teams. The ERMC maintains certain thresholds for compliance for each of the risks, and monitors these thresholds on a monthly basis to ensure compliance.

PC Bank uses the basic indicator approach to measure operational risk. Operational risk is calculated as shown in TABLE 2/3 – Capital Structure and Adequacy.

TABLE 14 – INTEREST RATE RISK IN THE BANKING BOOK

Interest Rate Risk is defined as the risk of loss resulting from changes in interest rates or in the volatility of interest rates; this includes the rising cost of funds and lower margins experienced as interest rates rise.

To mitigate this risk, the Bank undertakes the following mitigation steps:

- The Asset Liability Management Policy is the key Board policy that governs Interest Rate risk at PC Bank. Key principles of Asset Liability Management Policy are:
    - Preserving the long-term value of the spread income generated by its business, regardless of changes in interest rates
    - Managing asset and liability cash flows in a way that maximizes earnings within approved risk appetite levels;

- Management is responsible for monitoring, managing and reporting interest rate risk in accordance with Board approved policies. ALCO (Asset Liability Committee) meets on a monthly basis and reviews the cost of funds by channel, the funding plan, the fixed floating mix and on a quarterly basis reviews the sensitivity of Net Interest Income of PC Bank and regulatory capital to parallel and non parallel movement in interest rates. ALCO reports to the Audit Committee of the Board on a quarterly basis. On an annual basis, the Audit Committee of the Board approves the Interest Rate Risk Management plan.

- Limit Structure - PC Bank monitors the following limits to ensure adherence to the above listed policies

  Fixed Floating Mix

  - REQUIREMENT: An adequate mix of fixed and floating-rate instruments serves to ensure diversification of interest rate exposure. The acceptable range for both the "fixed" and "floating" portions of the mix is set to be between 40% and 60%; neither to exceed 60%. The target fixed floating mix is set at 40% fixed and 60% floating.
  - As of June 30, 2013, PC Bank had 51% of the liabilities that were floating in nature and 49% fixed in nature.

  Net Interest Income ("NII") Sensitivity

  - REQUIREMENT: For 200 bps adverse parallel movement in interest rates, impact not more than 15% of 12-month forward Net Interest Income.
  - As of June 30, 2013, Net Interest Income sensitivity ratio of PC Bank was 7.3% for a 200 bps adverse movement in interest rates.

  Market Value Sensitivity

  - REQUIREMENT: For 200 bps parallel movement the impact on regulatory capital is not more than 20%
  - As of June 30, 2013, Market Value sensitivity of PC Bank was 5.1% for a 200 bps adverse movement in interest rates.

LIQUIDITY RISK

PC Bank's approach to managing liquidity risk

Liquidity refers to the capacity of PC Bank to generate or obtain sufficient cash or its equivalent in a timely manner at a reasonable price to meet its commitments as they fall due and to fund new business opportunities as part of going-concern operations. Liquidity risk is the potential for losses to be incurred from holding insufficient liquidity to survive a contingent stress event.

PC Bank maintains a stock of high-quality unencumbered liquid assets ("liquid assets") sufficient to meet its operational needs as well as expected and unexpected outflows. The amount of liquid assets is directly linked to operational requirements, stock and maturity profile of GIC's and other maturing liabilities. Liquid assets are also monitored daily and supported by a range of early warning indicators. As at June 30, 2013 liquid assets were $61M.

PC Bank has a comprehensive liquidity risk framework guided by:

- Board approved policies reviewed at least annually;
- Board approved funding plan that provides effective diversification in the sources and tenor of funding;
- Sensitivity analysis and stress testing on a regular basis for a variety of scenarios; and
- Ensuring Treasury operations are supported by appropriate expertise and capabilities.