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# President's Choice Bank

**BASEL III PILLAR 3 DISCLOSURES**

December 31, 2018

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**TABLE 1 – OVERVIEW & SCOPE OF APPLICATION**

This document represents the Basel III Pillar 3 disclosures for President's Choice Bank ("PC Bank" or the "the Bank"). These disclosures are made pursuant to OSFI's Pillar 3 Disclosure Requirements issued in November 2007, and OSFI's Basel III Pillar 3 requirements Advisory issued in July 2013. Basel III, issued in June 2011, is part of the Basel Committee's continuous effort to enhance the banking regulatory framework. It builds on the International Convergence of Capital Measurement and Capital Standards document (Basel II). Basel III 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 report is unaudited and is reported in thousands of Canadian dollars, unless otherwise disclosed. The report is available on-line at <http://investors.loblaw.ca/English/investors/financial-reporting/default.aspx> and <https://www.pcfincial.ca/english/legal-information/legal>.

**President's Choice Bank Overview**

PC Bank is a Schedule I Canadian chartered bank governed by the *Bank Act (Canada)* and is a wholly owned subsidiary of Loblaw Companies Limited ("LCL"). In association with other financial institutions, PC Bank offers, under the President's Choice Financial® brand, 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 PC MasterCard product attributes include no annual fee and a competitive rewards program which allows customers to earn and redeem PC Optimum Points for free groceries and other products at participating stores within the LCL's network and certain e-commerce sites. PC Bank records the credit card receivables and associated funding on its balance sheet.

**GIC's**

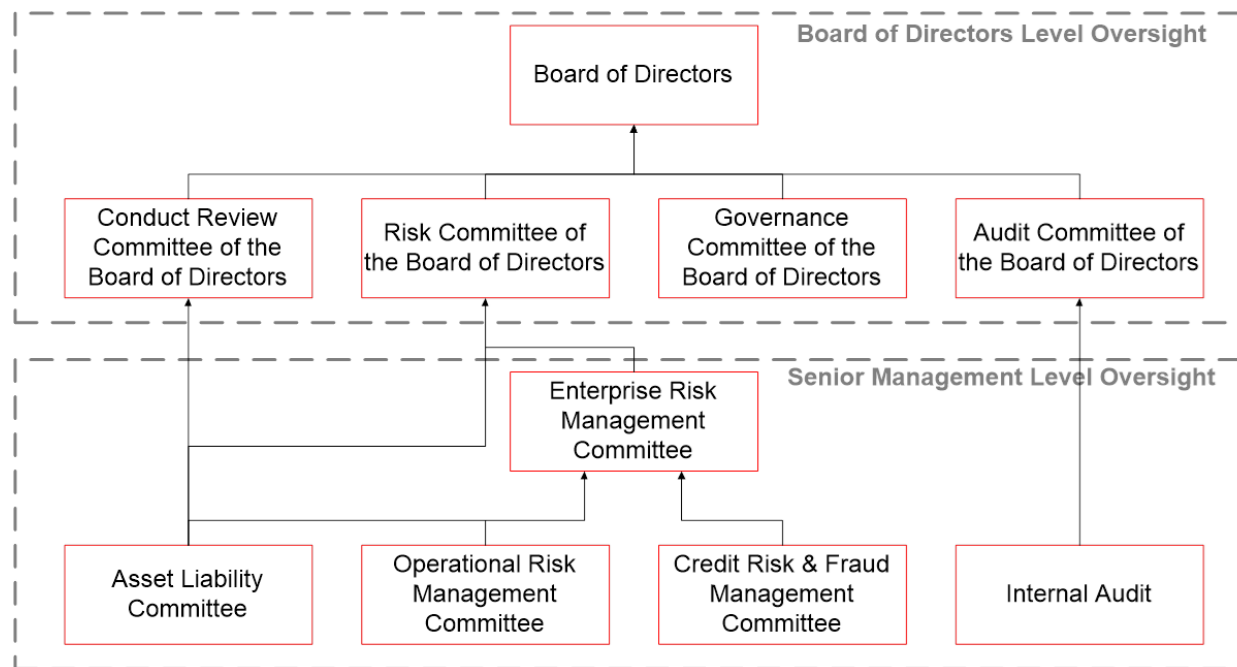
PC Bank launched a broker originated GIC program in 2010. The GIC's offered by PC Bank are insured by Canadian Deposit Insurance Corporation ("CDIC"). PC Bank issues nominee name GIC's through a number of brokers in Canada.

## Corporate Governance

The Bank 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:
  - **Enterprise Risk Management Committee ("ERMC")** – provides stewardship over the identification, definition, assessment, management, control, measurement, monitoring and reporting of PC Bank's enterprise risks.
    - **Asset Liability Committee ("ALCO")** – assists the Risk Committee of the Board in
      - Overseeing PC Bank's risk management activities by providing strategic direction on the management of liquidity risk, interest rate risk, investment risk, and other aspects of Asset Liability Management;
      - 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; and
      - Proactively assessing the balance sheet dynamics, having regard to economic data and forecasts, PC Bank's legal structure, market developments, accounting pronouncements, etc.
    - **Credit Risk and Fraud Management Committee ("CRFMC")** – has the following key responsibilities:
      - Providing a governance structure that oversees the Credit Risk Management program, including the associated strategies, policies and procedures;
      - Ensuring that Credit Risk and Fraud Risk forecasts are appropriate giving consideration to PC Bank's strategic directions, risk profile and appetite, emerging risks and stress tests;
      - Providing guidance on the methodology to continually identify, define, assess, manage, and report Credit Risk and Fraud Risk exposure.
    - **Operational Risk Management Committee ("ORMC")** – is responsible for planning, directing, monitoring and controlling the impact of PC Bank's risks arising from its operations. Its key responsibilities include:
      - Ensuring PC Bank's compliance with operational mandates, policies and procedures, and governing legislation;
      - Overseeing risk appetite, business continuity management, information security, internal control, outsourcing, social media, legal and regulatory risks management;
      - Overseeing the anti-money laundering and anti-terrorist program;
      - Overseeing other operational risks.
  - **Internal Audit ("IAS")** – assists Management in accomplishing its objectives by bringing a systematic, objective and disciplined approach to evaluate and improve the effectiveness of PC Bank's risk management, control and governance processes.

- The corporate governance structure diagram



## TABLE 2/3 – CAPITAL STRUCTURE AND ADEQUACY

### QUALITATIVE DISCLOSURES

#### 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 does not maintain a trading portfolio, and has minimal market risk from its high quality liquid asset portfolio; 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 PC Bank conclude that the 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 ERM to ensure that PC Bank stays within its risk appetite for all capital risks including those relating to ICAAP.

### 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;
- Contributed Surplus; and
- Accumulated Other Comprehensive Income (“AOCI”)

The Bank is a wholly owned subsidiary of Loblaw Companies Limited. The Bank has authorized an unlimited number of common shares without par value. As at December 31, 2018, PC Bank had 42,002 common shares issued and outstanding. During Q3 2018, the Bank declared and paid a \$100MM dividend to its parent company Loblaw Inc., a wholly owned subsidiary of LCL.

QUANTITATIVE DISCLOSURES

December 31, 2018

**Total Capital**

1	Directly issued qualifying common share capital plus related stock surplus	45,700
2	Retained Earnings	803,104
3	Accumulated other comprehensive income (and other reserves)	(865)
6	Common Equity Tier 1 capital before regulatory adjustments	847,939
28	Total regulatory adjustments to Common Equity Tier 1	(89,910)
29	Common Equity Tier 1 Capital (CET1)	758,029
44	Additional Tier 1 capital (AT1)	-
45	Tier 1 capital (T1= CET1 + AT1)	758,029
58	Tier 2 capital (T2)	25,846
59	<b>Total Capital (TC= T1 + T2)</b>	<b>783,875</b>

**Risk Weighted Assets Calculation (Standard Approach)**

60	<b>Total Risk Weighted Assets</b>	<b>3,636,192</b>
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**Capital Ratio**

61	<b>Common Equity Tier 1 (as % of risk-weighted assets)</b>	<b>20.85%</b>
62	<b>Tier 1 (as % of risk-weighted assets)</b>	<b>20.85%</b>
63	<b>Total Capital (as % of risk-weighted assets)</b>	<b>21.56%</b>

**OSFI Target Capital Ratios**

69	<b>Common Equity Tier 1 capital all-in target ratio</b>	<b>7.0%</b>
70	<b>Tier 1 capital all-in target ratio</b>	<b>8.5%</b>
71	<b>Total capital all-in target ratio</b>	<b>10.5%</b>

**Leverage Ratio disclosure as at December 31, 2018**

**On-balance sheet exposures**

1	On-balance sheet items (excluding derivatives, SFTs and grandfather securitization exposures but including collateral)	3,928,305
2	(Asset amounts deducted in determining Basel III "all-in" Tier 1 capital)	(89,910)
3	<b>Total on-balance sheet exposures (excluding derivatives and SFTs)</b>	<b>3,838,395</b>

**Derivative Exposures**

4	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	1,187
5	Add-on amount for PFE associated with all derivative transactions	1,627
11	<b>Total derivative exposures</b>	<b>2,814</b>

**Other off-balance sheet exposures**

17	Off-balance sheet exposure at gross notional amount	10,739,252
18	(Adjustments for conversion to credit equivalent amount)	(9,665,327)
19	<b>Off-balance sheet items</b>	<b>1,073,925</b>

**Capital and Total Exposures**

20	<b>Tier 1 capital</b>	<b>758,029</b>
21	<b>Total Exposures</b>	<b>4,915,134</b>

**Leverage Ratios**

22	<b>Basel III leverage ratio</b>	<b>15.42</b>
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**TABLE 4 – CREDIT RISK: GENERAL DISCLOSURES FOR ALL BANKS**

**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.

PC Bank is exposed to credit risk through:

- Acquisition strategies that grant credit to new clients; and
- Account management strategies that grant additional credit to existing clients.



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.

The Credit Risk and Fraud Management Department ("CRFM") is mandated to manage the portfolio and ensure that its concentrations and risk metrics are within the limits prescribed by the risk appetite. To achieve this, CRFM must develop effective credit granting, portfolio management, collection and fraud detection policies and procedures which control the nature, characteristics, diversity and quality of the credit card portfolio.

CRFM must effectively measure and report on key risk indicators at a department level as well as to external and internal oversight personnel. In addition to regular audit and regulatory oversight activities, the Board has established CRFMC which is responsible to assess, review and monitor credit and fraud risks to the Bank. This includes oversight of the key indicators, strategy changes, model validation and policy/process change management activities that have been deemed material. All committee activities are regularly reported to the Board via the committee report and the Enterprise Risk Management Committee Report of the Bank.

#### **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. In 2014, IASB issued IFRS 9 "Financial Instruments" ("IFRS 9"), replacing International Accounting Standards 39 "Financial Instruments: Recognition and Measurement". IFRS 9 includes revised guidance on the classification and measurement of financial assets, including impairment and a new general hedge accounting model. As at January 1, 2018, the Bank adopted IFRS 9. The allowance for credit card losses is established for impaired loans on the PC Bank's loan portfolio using an 'expected credit loss' ("ECL") model. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs and incorporating the use of probability weighted macroeconomic factors. The allowance for credit card losses is reviewed by the SVP, Credit Risk, the Chief Financial Officer ("CFO") and the Chief Risk Officer and recommended by the SVP, Credit Risk and the CFO 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.

Account Balances	Total Accounts as at December 31, 2018			
	Number of Accounts	Percentage of Total Accounts	Receivables Outstanding (in \$)	Percentage of Total Receivables
Credit Balance	187,573	4.27%	\$ (24,906,872)	-0.72%
No Balance	2,495,111	56.85%	\$ -	0.00%
LT or equal \$500.00	548,390	12.50%	\$ 115,472,645	3.33%
\$500.01 to \$1000.00	290,004	6.61%	\$ 215,422,110	6.21%
\$1,000.01 to \$3,000.00	491,484	11.20%	\$ 897,729,092	25.87%
\$3,000.01 to \$5,000.00	185,176	4.22%	\$ 721,513,323	20.80%
\$5,000.01 to \$10,000.00	154,286	3.52%	\$ 1,064,875,860	30.69%
GT \$10,000.00	36,606	0.83%	\$ 479,432,889	13.82%
<b>Totals</b>	<b>4,388,630</b>	<b>100.00%</b>	<b>\$ 3,469,539,047</b>	<b>100.00%</b>

Credit Limits	Total Accounts as at December 31, 2018			
	Number of Accounts	Percentage of Total Accounts	Receivables Outstanding (in \$)	Percentage of Total Receivables
LT or equal \$500	300,619	6.85%	\$ 14,799,286	0.43%
\$500.01 to \$1000.00	488,932	11.14%	\$ 72,294,778	2.08%
\$1,000.01 to \$3,000.00	881,584	20.09%	\$ 372,778,513	10.74%
\$3,000.01 to \$5,000.00	742,328	16.91%	\$ 477,515,474	13.76%
\$5,000.01 to \$10,000.00	1,076,686	24.53%	\$ 1,138,763,436	32.82%
GT \$10,000.00	898,481	20.48%	\$ 1,393,387,560	40.17%
<b>Totals</b>	<b>4,388,630</b>	<b>100.00%</b>	<b>\$ 3,469,539,047</b>	<b>100.00%</b>

Days Delinquent	Total Accounts as at December 31, 2018			
	Number of Accounts	Percentage of Total Accounts	Receivables Outstanding (in \$)	Percentage of Total Receivables
Current <sup>(1)</sup>	4,287,520	97.69%	\$ 3,253,645,053	93.77%
1 day to 29 days	67,570	1.54%	\$ 146,720,482	4.23%
30 days to 59 days	13,937	0.32%	\$ 26,317,999	0.76%
60 days to 89 days	6,827	0.16%	\$ 14,207,427	0.41%
90 days +	12,776	0.29%	\$ 28,648,086	0.83%
<b>Totals</b>	<b>4,388,630</b>	<b>100.00%</b>	<b>\$ 3,469,539,047</b>	<b>100.00%</b>

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

Province	Total Accounts as at December 31, 2018			
	Number of Accounts	Percentage of Total Accounts	Receivables Outstanding (in \$)	Percentage of Total Receivables
Alberta	570,819	13.01%	\$ 474,550,991	13.68%
British Columbia	647,720	14.76%	\$ 470,235,778	13.55%
Manitoba	198,608	4.53%	\$ 182,411,025	5.26%
New Brunswick	63,551	1.45%	\$ 52,945,014	1.53%
Newfoundland & Labrador	27,969	0.64%	\$ 21,517,793	0.62%
Nova Scotia	106,789	2.43%	\$ 93,884,929	2.71%
Northwest Territories	2,200	0.05%	\$ 2,057,539	0.06%
Nunavut	417	0.01%	\$ 299,185	0.01%
Ontario	2,234,201	50.90%	\$ 1,841,979,074	53.08%
Prince Edward Island	14,936	0.34%	\$ 13,659,377	0.39%
Quebec	400,249	9.12%	\$ 210,170,748	6.06%
Saskatchewan	113,455	2.59%	\$ 101,028,662	2.91%
Yukon	4,493	0.10%	\$ 4,624,500	0.13%
Other	3,223	0.07%	\$ 174,432	0.01%
<b>Totals</b>	<b>4,388,630</b>	<b>100.00%</b>	<b>\$ 3,469,539,047</b>	<b>100.00%</b>

**Allowance for Credit Card Losses:**

The following are the changes in the allowance for credit card losses for the twelve months ended December 31, 2018:

<b>Allowance for Credit Card Losses, beginning of year *</b>	<b>\$ 145,994</b>
Write-offs	(120,565)
Recoveries	26,029
Other	461
Provision for credit card losses	115,146
<b>Allowance for Credit Card Losses, December 31, 2018</b>	<b>\$ 167,065</b>

\*The opening balance was adjusted for the adoption of IFRS 9

**TABLE 5 – CREDIT RISK: DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDIZED APPROACH**

PC Bank invests in government issued or guaranteed securities, and cash deposits with regulated financial institutions (see details in Table 8).

**TABLE 6 – CREDIT RISK: DISCLOSURES FOR PORTFOLIOS SUBJECT TO IRB APPROACHES**

PC Bank assesses credit risk using the standardised approach for credit risk weighted assets, and as such, the Bank does not have any portfolios subject to the Internal Ratings-Based (IRB) approach.

**TABLE 7 – CREDIT RISK MITIGATION**

PC Bank’s loans receivable consists of credit card loans exclusively. The credit card loans are unsecured and are not guaranteed. The Bank invests in government issued or guaranteed securities, and cash deposits with regulated financial institutions. PC Bank has immaterial credit risk from its high quality liquid asset portfolio.

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

PC Bank does not have large counterparty exposure to financial guarantors, investment banks or derivative counterparties. PC Bank conservatively manages its counterparty credit risk exposures by setting internal limits on total exposure, tenor and ratings for each of the counterparties.

From time to time, PC Bank enters into foreign exchange forward agreements to hedge its exposure on certain USD payables. In the first quarter of 2018, PC Bank entered into additional USD foreign exchange forward agreements which mature on various dates up to December 2019.

From time to time, PC Bank enters into interest rate forward agreements and interest rate swaps to manage its interest rate exposures. In 2016, PC Bank entered into interest rate swaps to manage its interest rate exposures with maturity dates of August 2017 and February 2018 respectively. During Q1 2018, \$100MM interest rate swap matured. In Q4 2018, PC Bank entered into additional interest rate swaps to manage its interest rate exposures with maturity dates of December 2020. In 2018, PC Bank entered into bond forward agreements with various maturity dates up to December 2019 to hedge its exposure to interest rate changes prior to future debt issuance. During Q3 2018, as a result of the issuance of the Eagle 2018-1 senior and subordinated term notes, \$250 million bond forward agreements were settled.

The counterparty exposure associated with the derivative contracts has been included in the table below.

#### QUANTITATIVE DISCLOSURES

	December 31, 2018	
	Amount	Risk Weight
Deposits with Regulated Financial Institutions	\$ 146,122	20%
Deposits with Regulated Financial Institutions	\$ 327	50%
Government Issued or Guaranteed Securities	\$ 289,647	0%
Derivatives exposures	\$ 2,645	20%
Derivatives exposures	\$ 169	50%

#### TABLE 9 – SECURITIZATION: DISCLOSURE FOR STANDARDISED APPROACH

#### 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 its own asset backed securities or provide liquidity facilities for asset backed commercial paper.

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

- Term Notes issued by Eagle Credit Card Trust (“Eagle”): During 2013, Eagle issued 2013-1 \$400 million of senior and subordinated term notes with a maturity date of October 17, 2018 at a weighted average interest rate of 2.91%. Eagle 2013-1 matured and was repaid on October 17, 2018. In September 2015, Eagle issued 2015-1 \$250 million of senior and subordinated term notes with a maturity date of September 17, 2020 at a weighted average interest rate of 2.23%. In October 2017, Eagle issued 2017-1 \$250 million of senior and subordinated term notes with a maturity date of October 17, 2022 at a weighted average interest rate of 2.71%. During Q3 2018, Eagle issued 2018 -1 \$250 million senior and subordinated term notes with a maturity date of July 17, 2023 at a weighted average interest rate of 3.10%.

- The agreements between PC Bank and Other Independent Securitization Trusts with respect to Asset Backed Commercial Paper issued at variable rates, mature by 2020.

During 2018, PC Bank recorded a net increase of \$275 million of co-ownership interests in the securitized receivables held by the Other Independent Securitization Trusts.

#### Eagle Credit Card Trust - Ratings Information

	As at December 31, 2018	
	DBRS	Fitch
Eagle Series 2015-1 Class A Notes	AAA (sf)	AAA (sf)
Eagle Series 2015-1 Class B Notes	A (sf)	A (sf)
Eagle Series 2015-1 Class C Notes	BBB (sf)	BBB (sf)
Eagle Series 2017-1 Class A Notes	AAA (sf)	AAA (sf)
Eagle Series 2017-1 Class B Notes	A (sf)	A (sf)
Eagle Series 2017-1 Class C Notes	BBB (sf)	BBB (sf)
Eagle Series 2018-1 Class A Notes	AAA (sf)	AAA (sf)
Eagle Series 2018-1 Class B Notes	A (sf)	A (sf)
Eagle Series 2018-1 Class C Notes	BBB (sf)	BBB (sf)

#### QUANTITATIVE ANALYSIS:

(In Millions of Canadian Dollars)

	December 31, 2018	
<b>Credit card receivables, net of allowance for impairment</b>	<b>\$</b>	<b>3,308</b>
Securitized to Eagle Credit Card Trust	\$	750
Securitized to Other Independent Securitization Trusts	\$	915

#### TABLE 10 /11 – MARKET RISK

PC Bank does not maintain a trading portfolio, and has minimal market risk from its high quality liquid asset portfolio.

## TABLE 12 – OPERATIONAL RISK

PC Bank uses the basic indicator approach to measure operational risk.

## TABLE 13 – EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS

PC Bank does not have any banking book or equity portfolios. Therefore, the Bank has no equity risk.

## TABLE 14 – INTEREST RATE RISK

### QUALITATIVE DISCLOSURES

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 Interest Rate Risk Management Policy is the key Board policy that governs Interest Rate risk at PC Bank. Key principles of the Interest Rate Risk 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 meets on a monthly basis and reviews the cost of funds by channel, the funding plan, the fixed floating mix, 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 Risk Committee of the Board on a quarterly basis. On an annual basis, the Risk Committee of the Board approves the Interest Rate Risk Management plan.

From time to time, PC Bank may enter into derivative contracts to manage interest rate risk.

### QUANTITATIVE ANALYSIS

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

#### Fixed Floating Mix

- An adequate mix of fixed and floating-rate instruments serves to ensure diversification of interest rate exposure. The acceptable range for the “floating” portion of the mix is set to be below 40%.
- As of December 31, 2018, PC Bank had ~10% floating rate exposure.

### Net Interest Income (“NII”) Sensitivity

(All measured in Canadian Dollars)

- For  $\pm 200$  bps parallel movement in interest rates, impact not more than 6% of 12-month forward Net Interest Income.
- As of December 31, 2018, Net Interest Income sensitivity ratio of PC Bank was 1.25% for a 200 bps adverse movement in interest rates.

### Market Value Sensitivity

(All measured in Canadian Dollars)

- For  $\pm 200$  bps parallel movement the impact on regulatory capital is not more than 8%
- As of December 31, 2018, Market Value sensitivity of PC Bank was 1.4% for a 200 bps adverse movement in interest rates.

## 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.

In May 2014, OSFI released the final Guideline on “Liquidity Adequacy Requirements” (“LAR”). The LAR guideline establishes two minimum standards based on the Basel III framework: the Liquidity Coverage Ratio (“LCR”) effective January 1, 2015, and the net Stable Funding Ratio (“NSFR”) effective January 1, 2020. The Bank is required to comply with a LCR limit from January 2015. During 2018, PC Bank was in compliance with the LCR requirements.

PC Bank holds liquid assets in the form of balances with banks and high quality securities sufficient to meet its regulatory and operational needs as well as expected and unexpected outflows. Liquid assets are also monitored daily and supported by a range of early warning indicators. As at December 31, 2018, liquid assets were \$436 million.

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.

## CURRENCY RISK

PC Bank is exposed to immaterial currency risk as the Bank carries insignificant assets in foreign currency. From time to time, PC Bank may enter into derivative contracts to manage currency risk related to expenses paid to the US vendors. Please refer to Table 8 for further information.



## REMUNERATION

### QUALITATIVE DISCLOSURES

#### Overall Components of Compensation

The framework of PC Bank compensation program for senior executives is comprised of base salary, short-term cash incentives and a long term incentive plan. Base salary reflects the senior executives': (a) level of responsibility (b) skill and experience, (c) market value of the position and (d) overall performance both individually and in their business unit. Roles reviewed against market, internal comparators and external comparators. Base salary is reviewed annually and as required by market conditions.

#### Short Term Incentive Plan

PC Bank's short term incentive plan ("STIP") is designed to motivate the senior executives to meet the corporation's annual business and financial objectives. Every fiscal year, the performance of each individual is measured against the achievement of specific financial and performance goals which vary from year to the next. The STIP program is based on performance against various different performance measures that are designed to focus both executive and colleagues on key drivers of the business as well as value creation over both the short and long term.

The STIP is a self-funded program with minimum financial threshold goals must be achieved in order to be eligible for a payout. Short-term incentive award targets are determined based on specific factors including role complexity, scope and impact of a role over a 12-month period. All participating colleagues have a short term cash incentive target that is expressed as a percentage of base salary determined by position and level within the organization. While there is no minimum payout range, the STIP targets range from 40-100% for senior executives.

#### Long Term Incentive Plans

Loblaw Companies Limited ("LCL")'s equity-based Long Term Incentive Plan ("LTIP") is designed to motivate senior executives and increase shareholder value. PC Bank executives participate in the LCL's LTIP program which awards long term incentives in the form of LCL stock options, restricted share units ("RSUs"), and Performance Share Units ("PSUs"). The value of the stock options and RSUs are directly linked to the change in value of LCL Common Shares. Executive are eligible for LTIP grants generally on an annual basis. The size of the annual award of grants that an executive is eligible to receive is determined as part of the executive's total LTIP award. PSUs are a form of at-risk long-term compensation intended to motivate executives to deliver on business objectives. The target number of PSUs granted each year takes into account the scope of the executive's role, his/her impact on the business and the competitive market practice.

The Stock Option plan, RSU and PSU plans are managed by LCL and administered by a LCL Governance Committee - who approve participants, make grants of options and establish limitations, restrictions and conditions upon any grants of options. Full details regarding the LCL Stock Option, RSU and PSU plans are included in the 2018 Loblaw Management Proxy Circular, available on [www.sedar.com](http://www.sedar.com).

**Short Term Incentive Payments**

	<b>Total Number of Recipients</b>	<b>Total Value</b>
PC Bank Senior Management Recipients in 2017	10	\$ 2,117
PC Bank Senior Management Recipients in 2018	14	\$ 2,329

**Stock Option Plan**

	<b>Total Number of Recipients</b>	<b>Grant Date Fair Value*</b>	<b>Vesting Schedule</b>	<b>Expiry Schedule</b>
PC Bank Senior Management Recipients in 2017	14	\$ 956	20% per year	7 years
PC Bank Senior Management Recipients in 2018	14	\$ 996	20% per year	7 years

\* Represents the total options granted value using the Black-Scholes model.

**Restricted Share Unit Plan (“RSU”s) and Performance Share Unit Plan (“PSU”s)**

	<b>Total Number of Recipients</b>	<b>Grant Date Fair Value</b>	<b>Performance Period End Date</b>
PC Bank Senior Management Recipients in 2017	14	\$ 2,282	2-Mar-20
PC Bank Senior Management Recipients in 2018*	14	\$ 2,757	1-Mar-21

\*Fair Value includes originally granted awards plus additional Make-Whole awards granted due to Choice Properties spin-out

**Board of Directors Compensation**

	<b>2018</b>	<b>2017</b>
PC Bank Board of Directors' fee and expenses	\$ 389	\$ 558