



President's Choice Bank

BASEL III PILLAR 3 DISCLOSURES

December 31, 2020

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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 April 2017. Basel III, 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. In January 2015, the Basel Committee on Banking Supervision published the standard for the Revised Pillar 3 Disclosures Requirements aimed to address the issues identified from the financial crisis and to improve comparability and consistency of financial regulatory disclosures through more standardized formats between financial institutions and across jurisdictions.

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 <https://www.loblaw.ca/en/investors-reports>.

In Q1 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. 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. The Bank implemented the regulatory adjustment for the capital treatment of expected credit losses (“ECL”) where a portion of the ECL that would otherwise be included in Tier 2 capital to instead be included in Common Equity Tier 1 (CET1) and Tier 1 capital. The regulatory adjustment incorporates the after-tax difference of the general allowances between a reporting period and December 31, 2019 subject to a scaling factor. The regulatory adjustments are effective from fiscal 2020 to 2022.

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”). Waterford Reinsurance Inc. (“Waterford”), a wholly owned subsidiary of PC Bank, was incorporated under the laws of Barbados. Waterford is authorized to conduct in the business of insurance. For accounting purposes under International Financial Reporting Standards (“IFRS”), PC Bank consolidates the results of Waterford. For regulatory capital purposes, Waterford is not consolidated as insurance subsidiaries are outside the scope of regulatory consolidation. As at December 31, 2020, PC Bank’s investment in Waterford of \$735 thousand was under 10% of the Common Equity Tier 1 Capital, the capital deduction threshold limit. Therefore, the amount was not deducted from the Common Equity Tier 1 Capital, and was risk weighted at 250%.

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 eligible for deposit insurance from Canadian Deposit Insurance Corporation (“CDIC”). PC Bank issues nominee name GIC’s through a number of brokers in Canada.

PC Money Account

In September 2020, PC Bank launched the PC Money Account as a no-fee bank account that offers PC Optimum loyalty points on everyday banking transactions. The balances in the PC Money Accounts are eligible for deposit insurance from CDIC.

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

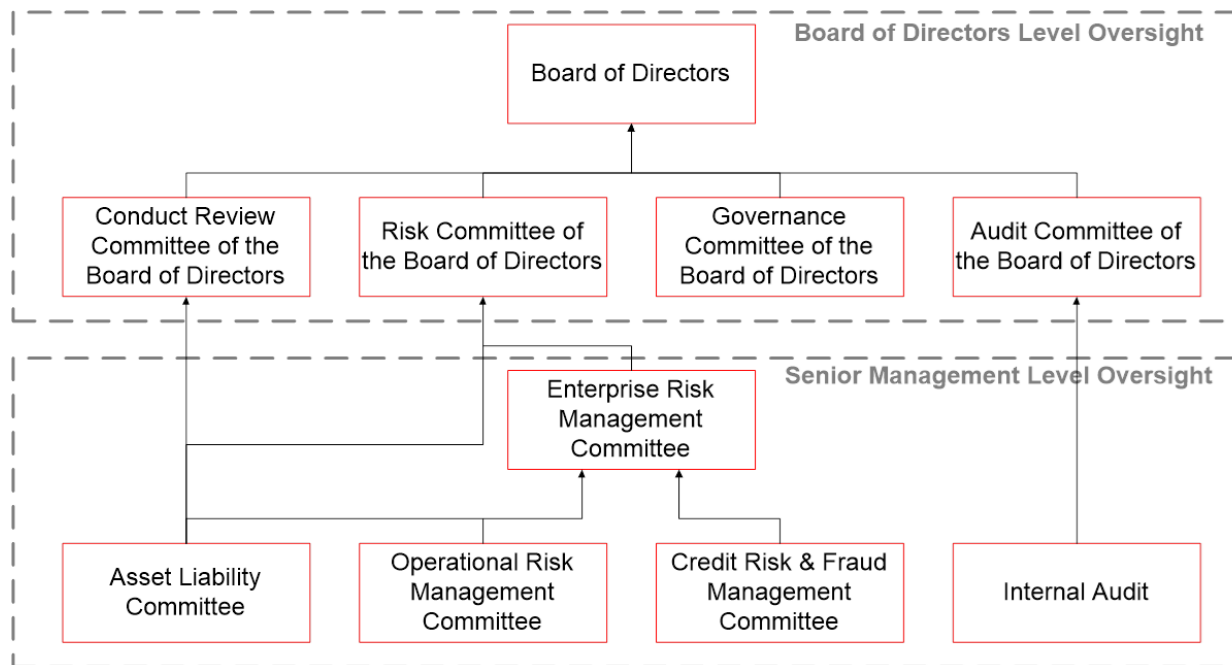


TABLE 2/3 – CAPITAL STRUCTURE AND ADEQUACY**QUALITATIVE DISCLOSURES****PC Bank Risk Management**

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, 2020, PC Bank had 42,002 common shares issued and outstanding. During 2020, the Bank declared and paid a \$50MM dividend to its parent company Loblaw Inc., a wholly owned subsidiary of LCL.

QUANTITATIVE DISCLOSURES

December 31, 2020

Total capital

Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	48,708
2	Retained Earnings	913,727
3	Accumulated other comprehensive income (and other reserves)	(10,003)
6	Common Equity Tier 1 capital before regulatory adjustments	952,432
Common Equity Tier 1 capital: regulatory adjustments		
28	Total regulatory adjustments to Common Equity Tier 1	(111,011)
29	Common Equity Tier 1 Capital (CET1)	841,421
29a	Common Equity Tier 1 Capital (CET1) with transitional arrangements for ECL provisioning not applied	829,417
Additional Tier 1 capital: regulatory adjustments		
44	Additional Tier 1 capital (AT1)	-
45	Tier 1 capital (T1= CET1 + AT1)	841,421
45a	Tier 1 Capital with transitional arrangements for ECL provisioning not applied	829,417
Tier 2 capital: instruments and allowances		
50	General allowance	11,298
51	Tier 2 capital before regulatory adjustment	11,298
Tier 2 capital: regulatory adjustments		
57	Total regulatory adjustments to Tier 2 capital	-
58	Tier 2 capital (T2)	11,298
59	Total Capital (TC= T1 + T2)	852,719
59a	Total Capital with transitional arrangements for ECL provisioning not applied	852,719
Risk Weighted Assets Calculation (Standard Approach)		
60	Total Risk Weighted Assets	3,526,292
Capital Ratio		
61	Common Equity Tier 1 (as % of risk-weighted assets)	23.86%
62	Tier 1 (as % of risk-weighted assets)	23.86%
63	Total Capital (as % of risk-weighted assets)	24.18%
61a	CET1 Ratio with transitional arrangements for ECL provisioning not applied	23.52%
62a	Tier 1 Capital Ratio with transitional arrangements for ECL provisioning not applied	23.52%
63a	Total Capital Ratio with transitional arrangements for ECL provisioning not applied	24.18%
OSFI All-in Target		
69	Common Equity Tier 1 capital all-in target ratio	7.0%
70	Tier 1 capital all-in target ratio	8.5%
71	Total capital all-in target ratio	10.5%

Leverage Ratio disclosure as at December 31, 2020

On-balance sheet exposures

1	On-balance sheet items (excluding derivatives, SFTs and grandfather securitization exposures but including collateral) ¹	2,658,379
4	(Asset amounts deducted in determining Basel III "all-in" Tier 1 capital)	(123,015)
5	Total on-balance sheet exposures (excluding derivatives and SFTs)	2,535,364

Derivative Exposures

6	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	-
7	Add-on amount for PFE associated with all derivative transactions	5,852
11	Total derivative exposures	5,852

Other off-balance sheet exposures

17	Off-balance sheet exposure at gross notional amount	12,446,750
18	(Adjustments for conversion to credit equivalent amount)	(11,202,075)
19	Off-balance sheet items	1,244,675

Capital and Total Exposures

20	Tier 1 capital	841,421
20a	Tier 1 Capital with transitional arrangements for ECL provisioning not applied	829,417
21	Total Exposures	3,785,891

Leverage Ratios

22	Basel III leverage ratio	22.23
22a	Leverage ratio with transitional arrangements for ECL provisioning not applied	21.91

Note 1: Adjustments include the exclusion of sovereign securities from leverage ratio calculation per guideline issued by OSFI in April 2020

TABLE 4 – CREDIT RISK: GENERAL DISCLOSURES FOR ALL BANKS**QUALITATIVE DISCLOSURES**

The credit risk associated with PC Bank’s 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 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, 2020			
	Number of Accounts	Percentage of Total Accounts	Receivables Outstanding (in \$)	Percentage of Total Receivables
Credit Balance	231,629	4.82%	\$ (34,753,393)	-1.05%
No Balance	2,857,336	59.39%	\$ -	0.00%
LT or equal \$500.00	614,540	12.78%	\$ 127,624,861	3.85%
\$500.01 to \$1000.00	295,553	6.14%	\$ 217,531,051	6.57%
\$1,000.01 to \$3,000.00	467,404	9.72%	\$ 846,812,520	25.56%
\$3,000.01 to \$5,000.00	165,555	3.44%	\$ 645,510,674	19.48%
\$5,000.01 to \$10,000.00	137,348	2.86%	\$ 956,400,843	28.86%
GT \$10,000.00	41,107	0.85%	\$ 554,189,822	16.73%
Totals	4,810,472	100.00%	\$ 3,313,316,378	100.00%

Credit Limits	Total Accounts as at December 31, 2020			
	Number of Accounts	Percentage of Total Accounts	Receivables Outstanding (in \$)	Percentage of Total Receivables
LT or equal \$500	310,799	6.46%	\$ 12,829,151	0.39%
\$500.01 to \$1000.00	501,054	10.42%	\$ 52,686,958	1.59%
\$1,000.01 to \$3,000.00	895,585	18.62%	\$ 320,635,382	9.68%
\$3,000.01 to \$5,000.00	811,908	16.88%	\$ 430,567,988	13.00%
\$5,000.01 to \$10,000.00	1,177,570	24.48%	\$ 1,005,270,028	30.34%
GT \$10,000.00	1,113,556	23.14%	\$ 1,491,326,871	45.00%
Totals	4,810,472	100.00%	\$ 3,313,316,378	100.00%

Days Delinquent	Total Accounts as at December 31, 2020			
	Number of Accounts	Percentage of Total Accounts	Receivables Outstanding (in \$)	Percentage of Total Receivables
Current ⁽¹⁾	4,738,198	98.50%	\$ 3,137,252,427	94.68%
1 day to 29 days	47,116	0.98%	\$ 111,499,067	3.37%
30 days to 59 days	10,199	0.21%	\$ 23,786,760	0.72%
60 days to 89 days	5,214	0.11%	\$ 13,845,157	0.42%
90 days +	9,745	0.20%	\$ 26,932,967	0.81%
Totals	4,810,472	100.00%	\$ 3,313,316,378	100.00%

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

Province	Total Accounts as at December 31, 2020			
	Number of Accounts	Percentage of Total Accounts	Receivables Outstanding (in \$)	Percentage of Total Receivables
Alberta	634,342	13.19%	\$ 456,815,434	13.79%
British Columbia	706,915	14.70%	\$ 457,458,653	13.81%
Manitoba	221,942	4.61%	\$ 168,865,251	5.10%
New Brunswick	69,498	1.44%	\$ 56,894,548	1.72%
Newfoundland & Labrador	29,613	0.62%	\$ 23,386,331	0.71%
Nova Scotia	119,894	2.49%	\$ 96,136,021	2.90%
Northwest Territories	2,427	0.05%	\$ 2,209,233	0.07%
Nunavut	450	0.01%	\$ 337,522	0.01%
Ontario	2,489,115	51.74%	\$ 1,750,108,137	52.81%
Prince Edward Island	17,363	0.36%	\$ 15,367,167	0.46%
Quebec	384,540	7.99%	\$ 181,559,385	5.48%
Saskatchewan	126,052	2.62%	\$ 99,537,156	3.00%
Yukon	5,146	0.11%	\$ 4,593,303	0.14%
Other	3,175	0.07%	\$ 48,237	0.00%
Totals	4,810,472	100.00%	\$ 3,313,316,378	100.00%

Allowance for Credit Card Losses:

The following are the changes in the allowance for credit card losses for the twelve months ended December 31, 2020:

Allowance for Credit Card Losses, beginning of year	\$ 195,766
Write-offs	(137,660)
Recoveries	25,622
Other	518
Provision for credit card losses	152,622
Allowance for Credit Card Losses, December 31, 2020	\$ 236,868

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 Q2 2020, PC Bank entered into USD foreign exchange forward agreements which matured on various dates up to December 2020.

From time to time, PC Bank enters into interest rate forward agreements and interest rate swaps to manage its interest rate exposures. In Q4 2020, PC Bank entered into interest rate swaps to manage its interest rate exposures with maturity dates of December 2022. In Q4 2020, PC Bank entered into bond forward agreement with a maturity date of June 2021 to hedge its exposure to interest rate changes prior to future debt issuance.

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

QUANTITATIVE DISCLOSURES

	December 31, 2020	
	Amount	Risk Weight
Deposits with Regulated Financial Institutions	\$ 260,819	20%
Deposits with Regulated Financial Institutions	\$ 863	50%
Government Issued or Guaranteed Securities	\$ 427,145	0%
Derivatives exposures	\$ 5,852	20%

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”): 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%. The Eagle 2015-1 matured and was repaid on September 17, 2020. 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%. During Q3 2019, Eagle issued \$250 million of senior and subordinated term notes with a maturity date of July 17, 2024 at a weighted average interest rate of 2.28%. During Q3 2020, Eagle issued \$300 million of senior and subordinated term notes with a maturity date of July 17, 2025 at a weighted average interest rate of 1.34%.
- The agreements between PC Bank and Other Independent Securitization Trusts with respect to Asset Backed Commercial Paper issued at variable rates, mature by 2022.

During 2020, PC Bank recorded a net reduction of \$200 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, 2020	
	DBRS	Fitch
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)
Eagle Series 2019-1 Class A Notes	AAA (sf)	AAA (sf)
Eagle Series 2019-1 Class B Notes	A (sf)	A (sf)
Eagle Series 2019-1 Class C Notes	BBB (sf)	BBB (sf)
Eagle Series 2020-1 Class A Notes	AAA (sf)	AAA (sf)
Eagle Series 2020-1 Class B Notes	A (sf)	A (sf)
Eagle Series 2020-1 Class C Notes	BBB (sf)	BBB (sf)

QUANTITATIVE ANALYSIS:

(In Millions of Canadian Dollars)

	December 31, 2020	
Credit card receivables, net of allowance for impairment	\$	3,089
Securitized to Eagle Credit Card Trust	\$	1,050
Securitized to Other Independent Securitization Trusts	\$	575

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, 2020, PC Bank had -28.8% floating rate exposure.

Net Interest Income (“NII”) Sensitivity

(All measured in Canadian Dollars)

- For ± 200 bps parallel movement in interest rates, impact not more than 6% of 12-month forward Net Interest Income.
-

- As of December 31, 2020, Net Interest Income sensitivity ratio of PC Bank was -0.6% for a 200 bps adverse movement in interest rates.

Market Value Sensitivity

(All measured in Canadian Dollars)

- For ± 200 bps parallel movement the impact on regulatory capital is not more than 8%
- As of December 31, 2020, Market Value sensitivity of PC Bank was -0.1% 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 2020, 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, 2020, liquid assets were \$689 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 company’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 that 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 2020 Loblaw Management Proxy Circular, available on www.sedar.com.

Short Term Incentive Payments

	Total Number of Recipients	Total Value
PC Bank Senior Management Recipients in 2019	14	\$ 2,973
PC Bank Senior Management Recipients in 2020	14	\$ 2,216

Stock Option Plan

	Total Number of Recipients	Grant Date Fair Value*	Vesting Schedule	Expiry Schedule
PC Bank Senior Management Recipients in 2019	12	\$ 969	20% per year	7 years
PC Bank Senior Management Recipients in 2020	11	\$ 933	20% per year	7 years

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

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

	Total Number of Recipients	Grant Date Fair Value	Performance Period End Date
PC Bank Senior Management Recipients in 2019	12	\$ 2,088	31-Dec-21
PC Bank Senior Management Recipients in 2020	11	\$ 1,913	31-Dec-22

Board of Directors Compensation

	2020	2019
PC Bank Board of Directors' fee and expenses	\$ 312	\$ 286