

CANADIAN TIRE BANK

BASEL PILLAR 3 DISCLOSURES

December 31, 2012



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BASEL PILLAR 3 DISCLOSURES

1. SCOPE OF APPLICATION

Canadian Tire Bank ("the Bank") is a bank incorporated and domiciled in Canada. The consolidated financial statements of the Bank as at and for the years ended December 31, 2012 and 2011 include the Bank and a special purpose entity ("SPE"), Glacier Credit Card Trust ("GCCT"). The Bank is a wholly owned subsidiary of Canadian Tire Financial Services Limited ("CTFS"), itself a wholly owned subsidiary of Canadian Tire Corporation, Limited ("CTC").

The Bank engages in the business of originating, financing and managing credit card and other loans receivable and accepting deposits in high-interest savings accounts, including tax free accounts, and guaranteed investment certificates.

Basis of preparation

The Basel Pillar 3 disclosures included herein are made solely to meet the requirements of the Office of the Superintendent of Financial Institutions Canada ("OSFI"). The amounts disclosed in the tables below are the balance sheet carrying amounts included in the consolidated financial statements of the Bank prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB") and using the accounting policies described therein.

The Basel II capital adequacy framework prescribed by OSFI is applied to the consolidated operations of the Bank.

Transferability of capital

The Bank's capital is funded by its own capital issuance and profit retention. As part of its capital management process, the Bank seeks to maintain a prudent level of capital that supports its planned business growth and regulatory requirements.

2. CAPITAL STRUCTURE

OSFI's regulatory capital guidelines under Basel II allow for three tiers of capital. As at December 31, 2012 and 2011, Tier 1 capital includes common shares and retained earnings reduced by regulatory adjustments for net securitization exposures. The Bank currently does not hold any instruments in Tier 2 or Tier 3 capital.

(CDN dollars in thousands)	December 31, 2012	December 31, 2011
Share capital ¹	\$ 244,000	\$ 244,000
Retained earnings	418,545	288,273
Regulatory adjustments	(64,069)	(55,693)
Tier 1 and Total regulatory capital	\$ 598,476	\$ 476,580
Adjusted Tier 1 capital for purposes of assets-to-capital multiple	\$ 659,548	\$ 530,341

¹ Share capital consists of 244,000,000 issued common shares, without par value.

3. CAPITAL ADEQUACY

The Bank manages its capital under guidelines established by OSFI. The regulatory capital guidelines measure capital in relation to credit, market and operational risks. The Bank has various capital policies, procedures and controls, including an Internal Capital Adequacy Assessment Process ("ICAAP"), which it utilizes to achieve its goals and objectives. The Bank's objectives include:

- Providing sufficient capital to maintain the confidence of investors and depositors.
- Being an appropriately capitalized institution, as measured internally, defined by regulatory authorities and compared with the Bank's peers.

CANADIAN TIRE BANK
BASEL PILLAR 3 DISCLOSURES

3. CAPITAL ADEQUACY (continued)

Risk-weighted assets ("RWA") include all on-balance sheet assets weighted for the risk inherent in each type of asset, an operational risk component based on a percentage of average risk-weighted revenues, and a market risk component for assets held in the trading book and for on- and off-balance sheet financial instruments held in a foreign currency. Under IFRS, strictly for the purpose of calculating RWA, securitization transactions are still considered off-balance sheet transactions and therefore securitization assets are not included in the RWA calculation. Assets are included in the trading book when they are held either with trading intent or to hedge other elements in the trading book.

The Bank uses the standardized approach for credit risk for all on-balance sheet portfolios, the basic indicator approach for all components of operational risk, and the standardized approach for market risk. The Bank is not required to hold any capital in relation to market risk as the Bank does not have assets classified as held for trade nor does it hold financial instruments in a foreign currency.

Investment securities consist of bank, corporate and government debt securities with a rating of AAA to AA-. The Bank uses Dominion Bond Rating Service for determining credit ratings. Investment securities have risk-weightings from 0% to 20% based on their credit rating. Loans receivable consist of credit card, personal and line of credit loans and have a risk-weighting of 75%. Net securitization exposures are unrated and therefore have a 0% risk-weighting and are deducted from capital (under Basel III, certain net securitization exposures have a 1250% risk-weighting and are no longer deducted from capital). All other assets are risk-weighted at 100%.

The following table outlines the Bank's RWA and required capital.

(CDN dollars in thousands)	December 31, 2012		December 31, 2011	
	RWA	Capital Required ¹	RWA	Capital Required ¹
Credit Risk	\$ 2,115,875	\$ 211,588	\$ 1,979,303	\$ 197,930
Operational Risk	1,303,703	130,370	1,279,556	127,956
Total	\$ 3,419,578	\$ 341,958	\$ 3,258,859	\$ 325,886

¹ Calculated as 10% of RWA.

Capital ratios

The following table outlines the Bank's Tier 1 and Total capital ratios, and the assets-to-capital multiple.

	December 31, 2012	December 31, 2011
Tier 1 and Total regulatory capital ratio ^{1,2}	17.5%	14.6%
Assets-to-capital multiple ³	7.93	8.48

¹ Tier 1 capital ratio is calculated as Tier 1 capital divided by RWA

² Total capital ratio is calculated as Total capital divided by RWA.

³ The assets-to-capital multiple is calculated as total assets less net securitization exposures divided by adjusted Tier 1 capital.

The Bank's ratios are above internal minimum targets for Tier 1 and Total capital ratios and well below internal maximum targets for the assets to capital multiple. The Bank's internal minimum and maximum targets are determined by the Internal Capital Adequacy Assessment Process.

CANADIAN TIRE BANK

BASEL PILLAR 3 DISCLOSURES

4. CREDIT RISK

Credit risk is the risk of financial loss resulting from the failure of a debtor, for any reason, to fully honour its financial contractual obligations to the Bank. This is the most significant risk exposure faced by the Bank and arises principally from the Bank's loans receivable.

Objectives, policies and processes

The objective of the Bank's credit risk management program is to manage its risk within an appropriate tolerance and to maximize the overall return on the risks taken.

The Bank's Credit Risk Management Policy establishes how the Bank manages credit risks incurred through its business activities. The Board of Directors have overall responsibility for the Credit Risk Management Policy by ensuring that management has a framework and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business transaction level. The Bank's Credit Risk Management Policy is comprised of the following categories:

- Approval Authorities
- Portfolio Diversification
- Credit Risk Identification
- Credit Granting, Documentation and Collection
- Impaired Loans and Write-offs

Concentrations of credit risk

Concentrations of credit risk exist if a number of customers are engaged in similar activities, are located in the same geographic region or have similar economic characteristics such that their ability to meet contractual obligations could be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate a related sensitivity of the Bank's performance to developments affecting a particular counterparty, industry or geographic location. The Bank uses sophisticated credit scoring models, monitoring technology and collection modeling techniques to implement and manage strategies, policies and limits that are designed to control risk. Loans receivable are generated by a large and geographically dispersed group of customers primarily within Canada. Current credit exposure is limited to the loss that would be incurred if all of the Bank's counterparties were to default at the same time.

Risk measurement

The Bank maintains comprehensive procedures and information systems to effectively monitor and control the characteristics and quality of its credit portfolio. To ensure the Bank's credit granting, documentation and collection processes are followed correctly, the Bank maintains the following:

- A credit rating system that defines risk-rating criteria and rates all credits individually according to those criteria
- Portfolio characteristic monitoring
- Credit review processes
- Independent inspections of its credit portfolio to ensure compliance

CANADIAN TIRE BANK
BASEL PILLAR 3 DISCLOSURES

4. CREDIT RISK (continued)

Credit risk exposure by contractual maturity

(CDN dollars in thousands)	As at December 31, 2012				
	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Total
Investment securities					
Bank and corporate debt securities	\$ 131,317	\$ 96,541	\$ 59,296	\$ 23,372	\$ 310,526
Government debt securities	72,205	42,423	45,003	54,856	214,487
Loans receivable	4,242,108	187	-	16	4,242,311
Total	\$ 4,445,630	\$ 139,151	\$ 104,299	\$ 78,244	\$ 4,767,324

(CDN dollars in thousands)	As at December 31, 2011				
	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Total
Investment securities					
Bank and corporate debt securities	\$ 168,002	\$ 97,867	\$ 19,920	\$ 22,582	\$ 308,371
Government debt securities	28,818	5,008	-	86,696	120,522
Loans receivable	4,036,558	1,735	615	4	4,038,912
Total	\$ 4,233,378	\$ 104,610	\$ 20,535	\$ 109,282	\$ 4,467,805

Impaired Loans

A loan is considered past due when a customer has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired. Credit card loans are considered impaired and are written off when a payment is 180 days in arrears. Line of credit loans are considered impaired when a payment is over 90 days in arrears and are written off when a payment is 180 days in arrears. Personal loans are considered impaired when a payment is over 90 days in arrears and are written off when a payment is 365 days in arrears. No collateral is held against loans receivable.

Loans past due but not impaired

(CDN dollars in thousands)	As at December 31, 2012		
	31-90 days	> 90 days	Total
Credit card	\$ 76,485	\$ 52,681	\$ 129,166
Other	75	-	75
Total	\$ 76,560	\$ 52,681	\$ 129,241

(CDN dollars in thousands)	As at December 31, 2011		
	31-90 days	> 90 days	Total
Credit card	\$ 93,752	\$ 69,222	\$ 162,974
Other	255	-	255
Total	\$ 94,007	\$ 69,222	\$ 163,229

CANADIAN TIRE BANK
BASEL PILLAR 3 DISCLOSURES

4. CREDIT RISK (continued)

Allowance for credit losses

Losses for impaired loans are recognized when there is objective evidence that the impairment of the loans has occurred. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to net income. The carrying amount of impaired loans on the consolidated statement of financial position is reduced through the use of its impairment allowance accounts. Losses expected from future events are not recognized.

The Bank considers evidence of impairment for loans receivable at both a specific asset and collective level. All individually significant loans receivable are assessed for specific impairment. All individually significant loans receivable found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans receivable that are not individually significant are collectively assessed for impairment by grouping together loans receivable with similar risk characteristics.

The Bank uses a roll rate methodology. This methodology employs statistical analysis of historical data and experience of delinquency and default to estimate the amount of loans that will eventually be written off as a result of events occurring before the reporting date, with certain adjustments for other relevant circumstances influencing the recoverability of the loans receivable. The estimated loss is the difference between the present value of the expected future cash flows, discounted at the original effective interest rate of the portfolio and the carrying amount of the portfolio. Default rates, loss rates and the expected timing of future cash recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

<i>(CDN dollars in thousands)</i>	December 31, 2012	December 31, 2011
Allowance for credit losses, beginning of year	\$ 118,703	\$ 117,717
Net impairment for credit losses	261,200	296,196
Net impairment for fraud losses	4,419	5,818
Recoveries	58,158	49,983
Write-offs	(331,745)	(351,011)
Allowance for credit losses, end of year	\$ 110,735	\$ 118,703

CANADIAN TIRE BANK
BASEL PILLAR 3 DISCLOSURES

5. SECURITIZATION

The Bank acts as originator and liquidity provider to its own originated securitizations. The Bank uses securitization to diversify funding sources and for capital efficiency purposes. The Bank will also from time-to-time invest in third party high quality short term asset-backed commercial paper investment securities.

The consolidated financial statements include the financial statements of the Bank and GCCT as explained below. Under IFRS, strictly for the purpose of calculating RWA, securitization transactions are still considered off-balance sheet transactions and therefore securitization assets are not included in the RWA calculation. The Bank uses the standardized approach for securitization exposures. Securitization exposures are not rated and are therefore deducted from capital.

GCCT is a special purpose entity that was created to securitize credit card loans receivable. As at December 31, 2012 the Bank has transferred \$1,479.0 million in credit card loans receivable (December 31, 2011 - \$1,454.7 million) to GCCT, but has retained substantially all of the credit risk associated with the transferred assets. Due to retention of substantially all of the risks and rewards on these assets, the Bank consolidates GCCT and continues to recognize these assets within loans receivable and the transfers are accounted for as secured financing transactions. The associated liability as at December 31, 2012 of \$1,901.3 million (December 31, 2011 - \$1,451.7 million), secured by these assets, includes the commercial paper and term notes on the consolidated statement of financial position and is carried at amortized cost.

For legal purposes, the co-ownership interests in the Bank's receivables that are owned by GCCT have been sold at law to GCCT and are not available to the creditors of the Bank.

The Bank has not identified any factors arising from current market circumstances that could lead to a need for the Bank to extend liquidity and/or credit support to GCCT over and above the existing arrangements or that could otherwise change the substance of the Bank's relationship with GCCT. There have been no changes in the capital structure of GCCT since the Bank's assessment for consolidation.

Commercial paper notes

The asset-backed commercial paper notes are short-term notes issued by GCCT as financing for the 1997-1 series securitization deal. These commercial paper notes have varying original maturities of 364 days or less at interest rates fixed at the time of each renewal. The notes may bear interest payable at maturity or be sold at a discount and mature at face value. Commercial paper notes issued by GCCT are recorded at amortized cost.

Series 1997-1 notes will be repaid either through the application of collections distributed to GCCT in respect of the series 1997-1 ownership interest or by issuing replacement notes and applying the proceeds to repay existing notes, or some combination of the two. The series 1997-1 notes will also be subject to early repayment if any of the events listed below occur.

CANADIAN TIRE BANK
BASEL PILLAR 3 DISCLOSURES

5. SECURITIZATION (continued)

Term notes

Term notes are made up of senior notes and subordinated notes issued by GCCT with an original maturity ranging from five to seven years.

Senior notes (CDN dollars in thousands)	Expected Repayment	Coupon Interest Rate	December 31, 2012	December 31, 2011
Series 2006-2	May 20, 2014	4.405%	\$ 238,650	\$ 238,650
Series 2008-1	February 20, 2013	5.027%	600,000	600,000
Series 2010-1	November 20, 2015	3.158%	250,000	250,000
Series 2012-1	May 20, 2017	2.807%	200,000	-
Series 2012-2	October 20, 2017	2.394%	400,000	-
			\$ 1,688,650	\$ 1,088,650

Subordinated notes (CDN dollars in thousands)	Expected Repayment	Coupon Interest Rate	December 31, 2012	December 31, 2011
Series 2006-2	May 20, 2014	4.765%	\$ 13,890	\$ 13,890
Series 2008-1	February 20, 2013	6.027%	34,930	34,930
Series 2010-1	November 20, 2015	4.128%	14,551	14,551
Series 2012-1	May 20, 2017	3.827%	11,640	-
Series 2012-2	October 20, 2017	3.174%	23,281	-
			\$ 98,292	\$ 63,371

Transaction costs			(4,482)	(2,963)
			\$ 1,782,460	\$ 1,149,058

Asset-backed series senior and subordinated notes issued by GCCT are recorded at amortized cost. Transaction costs related to the issuance of the notes are netted against the carrying value of the notes and amortized over the expected life of the notes. The unamortized balance will be amortized as part of the interest expense over the remaining life of the notes.

Subject to the payment of certain priority amounts, the series senior notes have recourse on a priority basis to the related series ownership interest. The series subordinated notes have recourse to the related series ownership interests on a subordinated basis to the series senior notes in terms of the priority of payment of principal and interest. The series notes, together with certain other permitted obligations of GCCT, are secured by the assets of GCCT. The entitlement of note holders and other parties to such assets is governed by the priority and payment provisions set forth in the GCCT Indenture and the related series supplements under which these series of notes were issued.

Repayment of the principal of the series 2006-2, 2008-1, 2010-1, 2012-1 and 2012-2 notes is scheduled to commence and be completed on the expected repayment dates indicated in the preceding table. Following repayment of principal owing, and in some circumstances interest, under the series senior notes, collections distributed to GCCT in respect of the related ownership interests will be applied to pay principal owing under series subordinated notes.

Principal repayments may commence earlier than these scheduled commencement dates if certain events occur, including:

- a) The Bank failing to make required distributions to GCCT, or failing to meet covenant or other contractual terms;
- b) The performance of the receivables failing to achieve set criteria; and
- c) Insufficient receivables in the pool.

None of these events have occurred for the years ending December 31, 2012 or December 31, 2011.

CANADIAN TIRE BANK
BASEL PILLAR 3 DISCLOSURES

6. INTEREST RATE RISK

Objectives, policies and processes

It is the Bank's objective to effectively and efficiently manage its consolidated statement of financial position in order to maximize shareholder value within risk limits established within the Asset Liability Management Policy. This policy dictates interest rate risk limits and accountability and reporting requirements on this risk.

The Asset Liability Management Policy dictates the following interest rate risk limits for a plus or minus 200 bps parallel shift in interest rates in the Bank:

- Projected net interest income may decline by no more than 8%
- Net Economic Value of Equity ("EVE") may decline by no more than 20%

EVE is defined as the present value of assets less the present value of liabilities.

As at December 31, 2012, the Bank's projected net interest income would decline by 2% (December 31, 2011 – 2%) and EVE would decline by 4% (December 31, 2011 – 12%) after a 200 bps parallel increase in interest rates.

Exposure to interest rate risk

Interest rate risk reflects the Bank's financial sensitivity to movements in interest rates. Interest rate exposure may produce favourable or unfavourable effects depending on the nature of the exposure, and the direction and volatility of interest rate fluctuations. Interest rate exposure is affected by the interest rate sensitivity of assets and liabilities. The table below identifies the Bank's assets and liabilities which are sensitive to interest rate movements and those which are non-interest rate sensitive as they are either non-interest bearing or bear interest at fixed rates.

	December 31, 2012		
(CDN dollars in thousands)	Interest Sensitive	Non- interest Sensitive	Non-interest Bearing
Total assets	\$ 914,203	\$ 4,299,852	\$ 20,227
Total liabilities and shareholder's equity	1,046,693	3,391,865	795,724
Total interest rate sensitivity gap	\$ (132,490)	\$ 907,987	\$ (775,497)

	December 31, 2011		
(CDN dollars in thousands)	Interest Sensitive	Non- interest Sensitive	Non-interest Bearing
Total assets	\$ 415,899	\$ 4,068,136	\$ 13,187
Total liabilities and shareholder's equity	1,090,820	2,777,296	629,106
Total interest rate sensitivity gap	\$ (674,921)	\$ 1,290,840	\$ (615,919)

The following table provides the potential before-tax impact of an immediate and sustained 100 bps increase or decrease in interest rates on net income.

(CDN dollars in thousands)	December 31, 2012	December 31, 2011
Before-tax impact on net income of:		
100 bps increase in interest rates	\$ (4,300)	\$ (4,300)
100 bps decrease in interest rates	4,300	4,300

CANADIAN TIRE BANK
BASEL PILLAR 3 DISCLOSURES

7. REMUNERATION

The Bank follows the remuneration policies of its parent, CTFS, which in turn follows the policies of its parent, CTC. The Management Resources and Compensation committee of the CTC Board of Directors is responsible for the oversight of CTC's compensation structure for senior management including salaries, annual and long-term incentive plans and plans involving share issuances and share unit awards.

Key management personnel compensation for the year comprised:

(CDN dollars in thousands)	December 31, 2012	December 31, 2011
Salaries and other short-term employee benefits	\$ 1,778	\$ 2,025
Other long-term benefits	190	245
Share-based payment transactions	82	270
Directors fees, expenses and share unit plan	426	452
	\$ 2,476	\$ 2,992

In addition to their salaries, the Bank's employees participate in the employee future benefit plan of CTFS, which provides certain health care, dental care, life insurance and other benefits, but not pensions, to employees upon retirement. The Bank's employees also participate in stock-based compensation plans operated by CTC.

Senior management also participate in a short-term incentive plan ("STIP") and long-term incentive plan ("LTIP") operated by CTC.

The objective of the annual STIP is to motivate and reward senior managers to achieve annual objectives and financial goals. Evaluation of individual performance is based on the achievement of established individual objectives that are aligned to key areas of strategic focus and are critical to the achievement of CTC's business strategy.

The primary objective of the LTIP is to align the interests of senior managers with the achievement of CTC's long-term business objectives as well as with the interests of shareholders. LTIP is awarded for achieving CTC consolidated operating earnings targets over a three-year period and for CTC share price appreciation over a seven-year period.

Full details of CTC's compensation arrangements can be found in the 2012 CTC Management Information Circular, available on the CTC Investor Relations website.

In determining the payout under the STIP or LTIP plans, performance is measured against both financial and non-financial metrics to avoid inappropriate risks. Financial metrics are based primarily on CTC consolidated earnings.