EFFORT TRUST

Our Effort Is For You

BASEL III Framework - PILLAR 3 DISCLOSURE

For the year ended December 31, 2023.

1. Introduction

The Effort Trust Company (the “Company”) was incorporated in Ontario in 1978 and continued in 2004 under the Trust and Loan Companies Act (Canada). The Company is federally regulated by the Office of the Superintendent of Financial Institutions of Canada (“OSFI”). The Company offers retail deposits, residential and commercial mortgages and estate and trust administration services in the Province of Ontario. The Company’s disclosures pursuant to Pillar 3 of the Basel Framework are reported in this document.

2. Capital

The Company has a capital management program that regularly monitors the Company’s present and future capital needs. The Company’s strategic business plan and related financial model demonstrate that existing capital will be adequate and no additional capital will be required in the foreseeable future. Management’s philosophy is to retain capital beyond regulatory minimums and to manage capital conservatively (all capital qualifies as Common Equity Tier 1 Capital). The amount of capital required by the Company to support its lending also depends on the authorized leverage ratio which is set by OSFI. The Company’s financial projections indicate that the Company’s capital will be sufficient to maintain its present level of activity and allow for the Company’s future planned growth.

The Basel III capital adequacy requirements were implemented in 2023. Under the updated OSFI requirements, the Company is categorized as a Category II small and medium-sized bank (“Category II SMSB”). As part of this process, Senior Management conducts an annual review of its capital plan and the Board of Directors approves the updated capital plan annually.

The Company uses an Internal Capital Adequacy Assessment Process (“ICAAP”) to determine the quality and quantity of capital that is required to conduct its business activities. The ICAAP analysis conducted by Senior Management and approved by the Board of Directors, together with the annual strategic planning process, provides confirmation that the Company has adequate capital resources over its planning horizon including periods of economic downturn. The Company’s capital and leverage ratios have always been well in excess of OSFI and Basel III requirements.

The Company’s management and Board of Directors possess an in-depth understanding of the relationship between risk and capital and the need to ensure that capital ratios are maintained at an appropriate level. Growth strategies are tied to organic/market growth which ensures that capital plans reflect the

Company's planned growth in risk-weighted assets. The Company's management would not proceed with any acquisition or new business venture without appropriately considering the impact on capital and would ensure that there was full Board of Directors' review of any change in the business model which would affect capital.

Capital expectations and guidance from OSFI and The Basel Committee on Banking Supervision ("BCSB") are continually evolving over time. As part of sound capital management, the Company will continually revise and update its ICAAP in view of such regulatory reforms as well as recent international and domestic economic developments.

The Company's regulatory capital and capital and leverage ratios under the Basel III Framework are disclosed on the Company's website.

3. Credit Risk

The use of financial instruments can result in credit risk exposure representing the risk of financial loss arising from the counterparty's inability or refusal to fully honour its contractual obligations. The credit risk management policies of the Company provide an appropriate assessment of this risk. These policies include approval of credit applications, attribution of risk ratings, management of impaired loans, the establishment of provisions and holding investments with financial institutions. The policies are periodically reviewed at least annually by the Board of Directors and are reviewed periodically by the Audit and Risk Management Committee. The Company's maximum exposure to credit risk represents the sum of the financial assets in the Company's consolidated balance sheet, plus credit-related commitments.

	Maximum Exposure **$**
Financial assets:	
Cash and cash equivalents	292,885,592
Short-term investments	38,245,295
Securities	10,712,885
Mortgages and loans	726,715,216
Amounts receivable	6,676,582
	1,075,235,570
Credit risk exposures relating to off-balance sheet items are as follows:	
Credit and other commitments	3,334,864
As at December 31, 2023	**1,078,570,434**

Credit Risk Mitigation

68% of the total maximum exposure relating to on-balance sheet assets above is derived from mortgages and loans, which are backed by collateral. Included in residential mortgages are CMHC-insured mortgages of $94,005,634.

Concentration of Risks of Financial Assets with Credit Exposure

a) Industry Sectors

The following table breaks down the Company's credit exposure at carrying amounts (without taking into consideration collateral held or other credit support), as categorized by the industry sectors of the Company's counterparties:

	Financial services $	Real estate - residential $	Real estate - commercial $	Services $	Other $	Total $
Mortgages and loans – residential	-	713,747,081	-	-	-	**713,747,081**
Mortgages and loans - non-residential	123,039	-	11,769,691	971,079	104,326	**12,968,135**
Cash, cash equivalents and short-term investments	328,784,377	-	-	-	-	**328,784,377**
Investment securities	10,486,521	-	-	-	226,364	**10,712,885**
Other assets	-	-	-	-	6,676,582	**6,676,582**
As at December 31, 2023	**339,393,937**	**713,747,081**	**11,769,691**	**971,079**	**7,007,272**	**1,072,889,060**

b) Geographical Sectors

Concentration of credit exposure may arise when a group of counterparties has similar economic characteristics or is located in the same geographical region. The ability of these counterparties to meet contractual obligations would be affected by changing economic or other conditions. The Company's mortgage portfolio is primarily located in Southern Ontario.

c) Contractual Maturity

The following table shows the Company's position with regard to interest rate sensitivity of assets on the date of the earlier of contractual maturity or repricing date as at December 31, 2023.

	Floating rate	0-3 months	4-12 months	1-5 years	Greater than 5 years	Non-interest sensitive	Total
	$	$	$	$	$	$	$
Assets							
Cash and cash equivalents	34,790,517	256,920,753	-	-	-	1,174,322	292,885,592
Effective interest rate (%)	**-**	**5.51%**	**-**	**-**	**-**		
Short-term investments	-	1,922,520	35,278,430	-	-	1,044,345	38,245,295
Effective interest rate (%)	**-**	**4.12%**	**4.93%**	**-**	**-**		
Securities	-	-		-	-	10,712,885	10,712,885
Effective interest rate (%)	**-**	**-**	**-**	**-**	**-**		
Mortgages and loans	-	140,481,116	424,271,012	164,013,387	-	-2,050,299	726,715,216
Effective interest rate (%)	**-**	**6.00%**	**7.00%**	**6.00%**	**-**		

Impairment and Provisioning

A mortgage or loan is considered impaired, when in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Whenever a payment is contractually 90 days past due, loans are classified as impaired unless they are fully secured and collection efforts are reasonably expected to result in repayment of the debt within 180 days. In all cases, loans that are more than 180 days past due are considered impaired except when fully guaranteed or insured by the Canadian government, in which case they are classified as impaired when they are more than 365 days in arrears.

Allowance for Expected Credit Losses

The allowance for credit losses recorded in the consolidated balance sheet is maintained at a level that is considered adequate to absorb credit related losses on the mortgages and loans that are inherent in the portfolio. The Company assesses the impairment of mortgages and other receivables using an expected credit loss ("ECL") model. The Company's estimation of expected credit losses is a discounted probability- weighted estimate that considers a minimum of three future macroeconomic scenarios: a base, an upside and a downside scenario along with information about past events and current conditions as well as reasonable and supportable projections of future events and economic conditions. The loss allowance as at December 31, 2023 was determined as follows:

	Stage 1 **$**	**Stage 2** **$**	**Stage 3** **$**	**Total** **$**
Balance – Beginning of year	**5,115,000**	**96,000**	**64,000**	**5,275,000**
Provision for credit losses	-	75,000	70,000	**145,000**
Reversal of prior provisions	(178,000)	-	(64,000)	**(242,000)**
Balance – End of year	**4,937,000**	**171,000**	**70,000**	**5,178,00**

4. Operational Risk

Operational risk, which is inherent in all business activities, is the direct or indirect risk resulting from inadequate or failed internal processes, people or systems, or from external events. In recognition of these risks, the Company has comprehensive internal controls, and audit and compliance processes that regularly review a broad range of business operations and report their findings regularly to Senior Management and the Board of Directors. Based on past experiences and the risk management program in place, operational risk is at acceptable levels. The Company's operational risk management program is in accordance with OSFI Guideline E-21. The Company allocates capital for operational risk using the Simplified Standardized Approach. The Company's capital allocation for operational risk at December 31, 2023 was $6,770,000.

5. Significant Subsidiary

The Company has a wholly-owned subsidiary, Grey Elephant Holdings Inc. ("Grey Elephant"), which owns interests in various real estate co-tenancies which operate residential and commercial investment properties located throughout the Province of Ontario.

The Company's historical investment in Grey Elephant is $8,200,000 and net earnings in 2023 (after tax) were approximately $1,387,000.

6. Remuneration

The Conduct Review and Corporate Governance Committee and the Board of Directors are responsible for overseeing and authorizing remuneration paid to the Executive Team. The Executive Team includes directors and Senior Management in all areas of the Company including financial intermediary operations, property management, real estate sales and leasing services.

The Company's compensation philosophy is the foundation of the compensation program (the "Compensation Program"). The goal of the Company's compensation philosophy is to attract and retain high quality executives and to encourage them to meet expectations.

The Company's Compensation Program pays the Executive Team competitively while supporting the objectives of the organization of protecting depositors, preserving capital and maintaining profitability in a conservative and sustainable manner. More specifically, the Company believes that long-term results and sustained gains are more important than short-term success and that working together as a team is a greater contributor to sustained success than focusing on individual results.

The Executive Team's total compensation level is reviewed annually; specifically reviewing base salary and benefits to ensure they will provide a steady stream of income consistent with an employee's role and responsibilities within the Company and his/her assessed contribution over time, as well as his/her level of competencies. Regardless of the stated compensation philosophy, the Conduct Review and Corporate Governance Committee reserves the right to make special compensation awards to reflect extraordinary contributions and/or achievements at the Committee's discretion.

The Company has retained external advisors (the "Advisor") to review the Company's Compensation Program to ensure proper alignment to the business risk strategy and OSFI's expectations. The Advisor has reviewed the Compensation Program and has confirmed same to be a sound program that does not incent excessive risk taking and aligns appropriately to the FSB principles (based on the size and structure of the organization) and is founded on the Company's philosophy of "depositors first and capital second". Total compensation levels over the past three (3) years have remained stable with increases and adjustments for additional responsibilities and to adjust for inflation.