EFFORT TRUST

Our Effort Is For You

BASEL III Framework - PILLAR 3 DISCLOSURES

For the year ended December 31, 2024.

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.

All amounts are in 000s of Canadian dollars unless indicated otherwise.

Publicly available financial data for the Company can be found here.

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). 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"). Category II SMSBs must follow specific guidance put out by OSFI commensurate with their size and complexity. 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 continually revises and updates 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

Credit risk arises in the context of the Company's lending and investing activities. The Company focuses on residential mortgage lending in the Ontario market while prioritizing low default risk over rapid growth in accordance with a highly conservative risk appetite. Credit risk limits across multiple dimensions are strictly defined within internal policies. The underwriting function is the first line of defense in managing credit risk in accordance with strict limits and guidelines. The CFO and CEO oversee credit risk as part of general operations. The Company maintains strict controls over credit as well as adhering to all OSFI guidelines (e.g., B-20) for best practices. A portion of the Company's mortgages are insured by CMHC, thus significantly mitigating their credit risk.

The Compliance function plays an essential role in credit risk management by ensuring that our lending practices align with regulatory and legal standards, thereby supporting the conservative risk management approach. While not directly managing credit risk, compliance mitigates risk by preventing regulatory breaches. The Internal Audit function serves as an independent safeguard for credit risk management. Reporting directly to the CEO and the Board of Directors, it evaluates the effectiveness of mortgage origination and monitoring processes, ensuring consistent appliance of conservative limits and compliance with polices and regulations.

The Finance function produces quarterly reports for the CEO and Board of Directors, supplemented by concise monthly updates to ensure consistent oversight of the credit risk profile. The reports provide a detailed breakdown of total exposures along key segmentation criteria such as geographic subregion, LTV, loans in arrears, provisions, loan loss allowances and other key metrics etc.

The use of financial instruments can also 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 Company's maximum exposure to credit risk is represented by the balance sheet exposures plus credit-related commitments:

	Maximum Exposure $
Financial assets:	
Cash and cash equivalents	302,240
Short-term investments	44,291
Securities	10,103

Mortgages and loans	674,399
Amounts receivable	6,287
	1,037,320
Credit risk exposures relating to off-balance sheet items are as follows:	
Credit commitments	3,807
As at December 31, 2024	**1,041,127**

Credit Risk Mitigation

65% 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 $80,804.

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	-	665,015	-	-	-	**665,015**
Mortgages and loans - non-residential	117	-	8,574	592	101	**9,384**
Cash, cash equivalents and short-term investments	346,531	-	-	-	-	**346,531**
Investment securities	9,840	-	-	-	263	**10,103**
Other assets	-	-	-	-	6,287	**6,287**
As at December 31, 2024	**356,488**	**665,015**	**8,574**	**592**	**6,651**	**1,037,320**

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, 2024.

	Floating rate	**0-3 months**	**4-12 months**	**1-5 years**	**Greater than 5 years**	**Non-interest sensitive**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
<u>Assets</u>							
Cash and cash equivalents	31,703	269,771	-	-	-	766	302,240
Effective interest rate (%)	**-**	**3.63%**	**-**	**-**	**-**		
Short-term investments	-	7,938	30,609	5,744	-	-	44,291
Effective interest rate (%)	**-**	**4.72%**	**4.40%**	**4.41%**	**-**		
Securities	-	-		-	-	10,103	10,103
Mortgages and loans	-	133,328	373,912	169,478	-	(2,319)	674,399
Effective interest rate (%)	**-**	**7.83%**	**7.14%**	**6.58%**	**-**		

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 more than 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, 2024 was as follows:

	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Mortgages and loans	**5,099**	**233**	**135**	**5,467**

4. Operational Risk

Operational risk covers the direct and indirect risks resulting from inadequate or failed internal processes, people or systems, or from external events.

The Company has an operational risk management framework ("Framework") which codifies the approach to identifying, measuring, managing, reporting and controlling operational risk. The Framework is based on the three lines of defense model. Within this model, functional business line staff and management incur and own the risks, while the Risk Management function and other control functions (the Second Line) provide independent oversight and objective challenge to the first line of defense, as well as monitoring and control of operational risk. The Internal Audit function (the Third Line) provides assurance that control objectives are achieved by the first and second lines of defense. The Company uses financial reporting data from the general ledger and subledger systems to estimate the operational risk capital charge.

Regular operational risk reporting ensure that business activities are within approval limits or guidelines and are aligned with the Corporation's strategies and risk appetite. Breaches, if any, of these limits or guidelines are reported to Senior Management, committees, and/or Board of Directors depending on the limit or guideline. The Risk Management function is responsible for ensuring comprehensive identification and assessment of operational risk through the use of appropriate management tools. Operational risk is mitigated by adherence to strict, conservative operating principles, maintaining a conservative risk appetite, maintaining adequate insurance, extensive implementation of controls across business and corporate functions and the use of selective outsourcing. The Framework is reviewed at least annually by Senior Management.

The Company operational risk management program is based on compliance with the principles in OSFI Guideline E-21. The Company allocates capital for operational risk using the Simplified Standardized Approach as directed by OSFI.

5. Significant Subsidiary

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

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.