

# Community Trust Company

## Basel III Pillar 3 Disclosures

March 31, 2025



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# Part 1 - Scope of Application (cont.)



Community Trust Company (“CTC” or the “Company”) is a federally regulated company licensed under the Trust and Loan Companies Act (Canada) (the “Act”) and is incorporated and domiciled in Canada. The Company provides estate, trust, deposit, loan and mortgage services including guaranteed investment certificates, registered saving plans, residential mortgages and Home Equity Lines of Credit (HELOCs). CTC participates in the National Housing Authority (“NHA”) Mortgage Backed Security (“MBS”) and Canada Mortgage Bond (“CMB”) programs. CTC is a private company.

Commencing in February 2024, CTC has began funding Consumer Lending loans on its balance sheet. These loans are originated through Flexiti Financial Inc., a provincially regulated, fintech point-of-sale consumer lending company, founded in 2013 and a part of the Questrade Financial Group.

This document fulfills a key requirement of the Basel III Framework, encouraging market discipline by allowing market participants to assess increased disclosure surrounding both the risk management framework and the capital adequacy of the Company.

## Basis of preparation

This document represents CTC’s Basel III Pillar 3 disclosure made pursuant to the Office of the Superintendent of Financial Institutions (“OSFI”) requirements, which are based on global standards established by the Bank of International Settlements, Basel Committee on Banking Supervision (“BCBS”).

The amounts disclosed in this document for the period December 31, 2024 are audited, the Company’s quarterly interim consolidated financial statements are unaudited, and reflect the financial position and results of operations of the Company consolidated with the financial position and results of operations of its special purpose entity. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), including the accounting requirements specified by the OSFI, and reflect, where necessary, management’s best estimates and judgments. This report and the disclosures within it are unaudited.

The Pillar 3 Disclosures along with the Company’s financial information are presented in Canadian dollars. Except as otherwise indicated, financial information presented in Canadian dollars has been rounded to the nearest thousand. CTC is a Category 2 small and medium-sized deposit-taking institution (“SMSB”). The Disclosures are available on CTC’s website under “Regulatory Disclosures”. Please refer to OSFI’s Financial Data Website to get more information under Category “Trust Companies”. (Link: <https://www.osfi-bsif.gc.ca/Eng/wt-ow/Pages/fd-df.aspx>).

## Significant subsidiaries

CTC owns a subsidiary (Community Trust Realty Ltd) that holds real estate for use by CTC. Additionally, CTC is the limited partner in two limited partnerships (DBT SPV1 Limited Partnership and CTC Warehouse LP Inc.) which have the sole purpose of supporting CTC’s secured funding facilities. CTC also owns special purpose entities that are the general partners (BVH120 Corporation and CTC Warehouse GP Inc.) in the limited partnerships. On November 1, 2024, the Company acquired 100% ownership of Flexiti Financing SPE Corp (“SPE”) from Flexiti Financial Inc. (“FFI”), a related party, and acquired a portfolio of consumer lending loans comprising credit card loans and unsecured revolving lines of credit. All results of the subsidiaries mentioned are consolidated into the results of CTC.

# Part 1 -

## Scope of Application (cont.)

### Statement of risk appetite

Risk appetite is an expression of the level of risk that CTC is prepared to accept to achieve its business objectives. CTC takes a conservative approach to risk and integrates this approach within its business model and strategic objectives.

### Verification

The Pillar 3 Disclosures are not required to be subjected to external audit. The disclosures are verified and approved through internal reporting procedures of the Company.

### Comparison with the company's annual report

The Pillar 3 Disclosures have been prepared in accordance with regulatory capital adequacy concepts and rules, as applicable, and otherwise prepared in accordance with International Financial Reporting Standards ("IFRS") which is the basis on which the Company's financial statements are prepared.

The preparation of the Pillar 3 Disclosures along with the Company's financial statements in conformity with IFRS require management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in respective notes of the Company's Annual Report. Questions in respect of the Company's Annual Report or disclosures provided in this document should be directed to the Company's Chief Financial Officer.

# Part 2 - Basel and Community Trust Company



The Basel III framework consists of three pillars each of them concentrating on a different aspect of banking regulation.

- Pillar 1 makes recommendations for calculation of minimum capital requirements.
- Pillar 2 discusses the key principles of supervisory review and risk management guidance.
- Pillar 3 complements the first two pillars of Basel II by requiring a range of disclosures on capital and risk assessment processes, aimed at encouraging and reinforcing market discipline. Basel III requires enhanced disclosure specifically as it relates to capital disclosures.

## Corporate governance

The Company maintains a strong culture of corporate governance through its Board oversight structure, which includes the following Board committees:

- Executive Committee
- Conduct Review and Compensation Committee
- Audit Committee
- Governance and Conduct Review Committee
- Risk Review Committee

The Company seeks to achieve long-term sustainable risk adjusted growth to ensure its health and stability of earnings while protecting its brand, reputation and the interests of its depositors and customers and investors.

The Board of Directors (“Board”) ensures that:

- Management of regulatory compliance and aims to be fully compliant with the regulatory limits, constraints, and requirements within the respective specified timeframes.
- Maintenance of capital adequacy as required by the regulators.
- Sound and successful management of risks that the Company is exposed to, mainly, but not limited to: credit, competition, funding and liquidity, interest rate, media and reputational, operational, and regulatory risks.
- Maintenance of a stable and strong risk profile and the elimination of risks not central to the business strategy.

## Risk management

The Company’s Management and Board have developed and approved a Capital Management Policy in accordance with its Enterprise Risk Management Framework (“ERM”) which includes the Company’s risk appetite framework and stress testing program. Adherence to the Capital Management Policy ensures that the Company has sufficient capital to maintain its operations based on current activities, expected business developments in the future and the possibility of various disruptive or adverse scenarios. Such scenarios include periods of economic downturn and/or asset re-pricing. In addition, in accordance with the Company’s annual strategic planning, a 3-year forecast is prepared and provides guidance as to the type and extent of capital that will be required over this period of time.

## Part 2 - Basel and Community Trust Company (cont.)



The Company uses the Internal Capital Adequacy Assessment Process (“ICAAP”) to determine the quantity and quality of capital to conduct its business activities. In preparing the ICAAP, the high-risk areas established in the ERM are subject to stress testing which incorporates assumptions established in the annual strategic planning process. The results of the stress tests help to determine the magnitude of capital required to enable management and the Board to set capital levels appropriate with the Company’s risk appetite.

The Company’s Risk Review Committee (“RRC”) is responsible for overseeing the types of risk to which the Company may be exposed and of the techniques and systems used to identify, measure, monitor, report on and mitigate those risks. It is also responsible for reviewing capital management plans recommended by Management.

### Capital adequacy

The Company's objectives with respect to capital management are to comply with capital requirements set by the regulator, to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain a strong capital base to support the development of the business.

Capital levels for Canadian Financial Institutions are regulated pursuant to guidelines issued by OSFI, based on standards issued by the Bank for International Settlements, Basel Committee on Banking Supervision. Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 capital comprises the more permanent components of capital and consists primarily of common shareholders’ equity and non-cumulative preferred shares. Tier 2 capital makes an adjustment to add back Stage 1 and Stage 2 Expected Credit Loss (“ECL”) allowance. Total capital is defined as the sum of Tier 1 and Tier 2 capital.

The Company continues to enhance its ICAAP which examines a number of risks which generally are not included in the standardized asset risk weighting model. Internally this model is used to determine additional capital which it may need to be set aside to address these risks.

The responsibility for overall capital allocation principles and decisions rests with the Company’s Board. The Board monitors total capital against all material risks identified with respect to the Company’s business lines. Through the internal governance processes, the Company’s senior management is responsible for the investment and capital allocation decisions and assessments, and ensures that returns on investment are adequate after taking account of capital (capital vs. risk) requirements. The strategy is to allocate capital to business lines on the basis of their economic profit generation, and regulatory and economic capital requirements. The Company prepares its business ‘baseline’ forecasts (by months) including capital forecasts within its Annual Budget and Capital planning process.

In addition to the Tier 1 and Total capital ratios, Canadian financial institutions are required to ensure that their Leverage Ratio does not breach a minimum level prescribed by OSFI. The Company's Leverage Ratio remains above the minimum prescribed by OSFI.

# Part 3 - General Disclosures

## Capital structure

The Company's internal capital consists of Common Equity Tier 1 capital and Additional Tier 1 capital.

- Common Equity Tier 1 capital consists of common shares and retained earnings.
- The Company has authorized an unlimited number of common shares. As of December 31, 2024, the Company had 15,572,315 common shares issued and outstanding.
- The Company calculates its regulatory capital ratios in accordance with OSFI's Capital Adequacy Guidelines.

Composition of capital (in '000s)	at Mar 31 2025
<b>Common Equity Tier 1 capital: instruments and reserves</b>	
1. Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	405,254
2. Retained earnings	106,002
3. Accumulated other comprehensive income (and other reserves)	(19,665)
4. Directly issued capital subject to phase out from CET1 (only applicable to Federal Credit Unions)	-
5. Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
6. Common Equity Tier 1 capital before regulatory adjustments	491,591
<b>Common Equity Tier 1 capital: regulatory adjustments</b>	
28. Total regulatory adjustments to Common Equity Tier 1	(9,505)
29. Common Equity Tier 1 capital (CET1)	482,086
<b>Additional Tier 1 capital: instruments</b>	
30. Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-
31. of which: classified as equity under applicable accounting standards	-
32. of which: classified as liabilities under applicable accounting standards	-
33. Directly issued capital instruments subject to phase out from Additional Tier 1 (applicable only to Federal Credit Unions)	-
34. Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35. of which: instruments issued by subsidiaries subject to phase out (applicable only to Federal Credit Unions)	-
36. Additional Tier 1 capital before regulatory adjustments	-
<b>Additional Tier 1 capital: regulatory adjustments</b>	
43. Total regulatory adjustments to additional Tier 1 capital	-
44. Additional Tier 1 capital (AT1)	-
45. Tier 1 capital (T1 = CET1 + AT1)	482,086

# Part 3 - General Disclosures (cont.)

Composition of capital (cont.)	at Mar 31 2025
<b>Tier 2 capital: instruments and provisions</b>	
46. Directly issued qualifying Tier 2 instruments plus related stock surplus	-
47. Directly issued capital instruments subject to phase out from Tier 2 (applicable only to Federal Credit Unions)	-
48. Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
49. of which: instruments issued by subsidiaries subject to phase out (applicable only to Federal Credit Unions)	-
50. Collective allowances	36,232
51. Tier 2 capital before regulatory adjustments	36,232
<b>Tier 2 capital: regulatory adjustments</b>	
57. Total regulatory adjustments to Tier 2 capital	-
58. Tier 2 capital (T2)	36,232
59. Total capital (TC = T1 + T2)	518,318
60. Total risk-weighted assets	3,146,518
60a. Credit Valuation Adjustment (CVA) Risk-weighted Assets (RWA)	15,488
<b>Capital ratios</b>	
61. Common Equity Tier 1 (as a percentage of risk-weighted assets)	15.32%
62. Tier 1 (as a percentage of risk-weighted assets)	15.32%
63. Total capital (as a percentage of risk-weighted assets)	16.47%
<b>OSFI target</b>	
69. Common Equity Tier 1 target ratio	7.00%
70. Tier 1 capital target ratio	8.50%
71. Total capital target ratio	10.50%
<b>Capital instruments subject to phase-out arrangements (For Federal Credit Unions only)</b>	
80. Current cap on CET1 instruments subject to phase-out arrangements	-
81. Amount excluded from CET1 capital due to cap (excess over cap after redemptions and maturities)	-
82. Current cap on AT1 instruments subject to phase-out arrangements	-
83. Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	-
84. Current cap on Tier 2 instruments subject to phase-out arrangements	-
85. Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	-



## Part 3 - General Disclosures (cont.)

### Leverage ratio

Leverage ratio common disclosure (in '000s)	Mar 31 2025	Dec 31 2024
<b>On-balance sheet exposures</b>		
1. On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	7,274,336	6,879,900
2. Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework (IFRS)	-	-
3. (Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-
4. (Asset amounts deducted in determining Tier 1 capital)	(9,505)	(12,551)
5. Total on-balance sheet exposures (excluding derivative and SFTs) (sum of lines 1 and 2)	7,264,831	6,867,349
<b>Derivative exposures</b>		
6. Replacement cost associated with all derivative transactions	3,654	14,281
7. Add-on amounts for potential future exposure associated with all derivative transactions	30,337	30,506
8. (Exempted central counterparty-leg of client cleared trade exposures)	-	-
9. Adjusted effective notional amount of written credit derivatives	-	-
10. (Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11. Total derivative exposures (sum of lines 6 to 10)	33,991	44,787

## Part 3 - General Disclosures (cont.)

Leverage ratio common disclosure (cont.)	Mar 31 2025	Dec 31 2024
<b>Securities financing transaction exposures</b>		
12. Gross SFT assets recognised for accounting purposes (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13. (Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14. Counterparty credit risk (CCR) exposure for SFTs	-	-
15. Agent transaction exposures	-	-
16. Total securities financing transaction exposures (sum of lines 12 to 15)	-	-
<b>Other off-balance sheet exposures</b>		
17. Off-balance sheet exposure at gross notional amount	148,621	132,407
18. (Adjustments for conversion to credit equivalent amounts)	(59,953)	(54,304)
19. Off-balance sheet items (sum of lines 17 and 18)	88,668	78,103
<b>Capital and total exposures</b>		
20. Tier 1 capital	482,086	457,037
21. Total Exposures (sum of lines 5, 11, 16 and 19)	7,387,491	6,990,239
<b>Leverage ratio</b>		
22. Basel III leverage ratio	6.53%	6.54%

The Company complied with the OSFI guideline related to capital ratios and Leverage. Both the Common Equity Tier 1 and Total Capital Ratios remain above OSFI's stated minimum capital ratios of 7% and 10.5%, respectively, for a well-capitalized financial institution.

## Part 3 - General Disclosures (cont.)

### Key metrics (at consolidated group level)

	Mar 31 2025	Dec 31 2024	Sep 30 2024	Jun 30 2024	Mar 31 2024
<b>Available capital (amounts)</b>					
1. Common Equity Tier 1 (CET1)	482,086	457,037	374,296	347,079	320,241
1a. Common Equity Tier 1 with transitional arrangements for ECL provisioning not applied	482,086	457,037	374,296	347,079	320,241
2. Tier 1	482,086	457,037	374,296	347,079	320,241
2a. Tier 1 with transitional arrangements for ECL provisioning not applied	482,086	457,037	374,296	347,079	320,241
3. Total capital	518,318	492,298	399,652	365,901	333,792
3a. Total capital with transitional arrangements for ECL provisioning not applied (%)	518,318	492,298	399,652	365,901	333,792
<b>Risk-weighted assets (amounts)</b>					
4. Total risk-weighted assets (RWA)	3,146,518	3,043,995	2,272,483	2,088,158	1,928,622
4a. Total risk-weighted assets (pre-floor)	3,146,518	3,043,995	2,272,483	2,088,158	1,982,622
<b>Risk-based capital ratios as a percentage of RWA</b>					
5. CET1 ratio (%)	15.32%	15.01%	16.47%	16.62%	16.60%
5a. Common Equity Tier 1 ratio with transitional arrangements for ECL provisioning not applied	15.32%	15.01%	16.47%	16.62%	16.60%
5b. CET1 ratio (%) (pre-floor ratio)	15.32%	15.01%	16.47%	16.62%	16.60%
6. Tier 1 ratio (%)	15.32%	15.01%	16.47%	16.62%	16.60%
6a. Tier 1 ratio with transitional arrangements for ECL provisioning not applied (%)	15.32%	15.01%	16.47%	16.62%	16.60%
6b. Tier 1 ratio (%) (pre-floor ratio)	15.32%	15.01%	16.47%	16.62%	16.60%
7. Total capital ratio (%)	16.47%	16.17%	17.59%	17.52%	17.31%
7a. Total capital ratio with transitional arrangements for ECL provisioning not applied (%)	16.47%	16.17%	17.59%	17.52%	17.31%
7b. Total capital ratio (%) (pre-floor ratio)	16.47%	16.17%	17.59%	17.52%	17.31%

## Part 3 - General Disclosures (cont.)

	Mar 31 2025	Dec 31 2024	Sep 30 2024	Jun 30 2024	Mar 31 2024
<b>Additional CET1 buffer requirements as a percentage of RWA</b>					
8. Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9. Countercyclical buffer requirement (%)	0	0	0	0	0
10. Bank G-SIB and/or D-SIB additional requirements (%) [Not applicable for SMSBs]	-	-	-	-	-
11. Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.50%	2.50%	2.50%	2.50%	2.50%
12. CET1 available after meeting the bank's minimum capital requirements (%)	10.82%	10.51%	11.97%	12.12%	12.10%
<b>Basel III Leverage ratio</b>					
13. Total Basel III leverage ratio exposure measure	7,387,491	6,990,239	5,838,146	5,442,957	5,092,217
14. Basel III leverage ratio (row 2 / row 13)	6.53%	6.54%	6.41%	6.38%	6.29%
14a. Basel III leverage ratio (row 2a / row 13) with transitional arrangements for ECL provisioning not applied	6.53%	6.54%	6.41%	6.38%	6.29%

CET1 available after meeting the bank's minimum capital requirements (%) was calculated as the CET1 ratio less OSFI's minimum CET1 requirement (4.5%).

## Part 3 - General Disclosures (cont.)

### Credit risk

Basel III applies three approaches to the calculation of Pillar 1 Credit Risk capital requirements. The basic level, the Standardized Approach, requires the use of external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are grouped into broad categories and standardized risk weightings are applied to these categories. The remaining approaches are the Foundation Internal Ratings Based Approach (IRB) and the Advanced IRB Approach. In the Foundation IRB banks are allowed to develop their own empirical model to estimate the probability of default for individual clients or groups of clients. In the Advanced IRB banks develop their own empirical model to quantify required capital for credit risk (including probability of default, exposure at default, loss given default and risk weighted assets).

The Company applies the Standardized approach.

The Company performs regular monitoring of its risks, assessments, and related action plans. Senior management and the Board obtain information that allows them to keep informed regarding the effectiveness of their risk management process and activities. The RRC assists the Board in fulfilling these responsibilities.

Credit risk is the potential for financial loss if a borrower or counterparty in a transaction fails to meet its obligations in accordance with agreed terms. Credit risk on cash and cash equivalents is mitigated by maintaining cash balances at Schedule I Canadian chartered banks. Credit risk on the mortgage loans is mitigated by following Board-approved underwriting policies. Each mortgage originated is limited in maximum dollar amount and loan-to-value ratio in accordance with internal guidelines.

#### CRA: General qualitative information about credit risk

**CRA (A):** Credit risk is the potential for financial loss if a borrower or counterparty in a transaction, fails to meet its contractual obligation in accordance with agreed terms.

Community Trust Company's ("CTC") business model shapes the credit risk profile of the company. CTC is primarily a monoline residential mortgage lender with credit risk exposure to retail customers across Canada. Mortgages are originated in adherence to regulatory requirements and internal underwriting policy requirements.

In addition to robust underwriting standards, CTC's credit risk profile is shaped by compliance with regulatory requirements, adherence to prudent lending practices, a diversification strategy, and risk management practices. Mortgages are advanced based on the credit quality, amount of financing, lending parameters that clearly define the type/nature and qualification requirements of a prospective debtor. Any loan falling outside the CTCs lending guidelines requires enhanced review as per the approval authority. A credit rating methodology is used to track the quality of the mortgages at the time of origination/ renewal and due to any change in the customer profile. CTC has minimal credit exposure to Commercial loans.

Credit risk on cash and cash equivalents is mitigated by maintaining cash balances at Schedule I Canadian chartered banks.

## Part 3 - General Disclosures (cont.)

**CRA (B):** Community Trust Company's ("CTC") approach for defining the credit risk management policy and establishing credit risk limits is defined in the Credit Risk Management Framework ("Framework"). The Framework, approved by the Risk Review Committee ("RRC"), articulates CTC's approach to credit risk management, delineates authority, defines responsibilities, and specifies functions to uphold a comprehensive approach to credit risk management. CTC's credit risk management principles have been established to recognize and articulate the risks inherent to CTC's lending operation with a view to minimizing these risks. They are based on the identification and quantification of risk, the development of strategies to control risks, and the continuous monitoring and reporting of key credit risk measures.

Furthermore, the Board-approved Risk Appetite Statement sets explicit credit risk limits, while underlying underwriting policies establish management-level metrics and limits to bolster additional credit risk oversight. Any loan falling outside the CTCs lending guidelines requires Senior Management approval.

Setting credit risk limits at Community Trust is done with a reasonable level of granularity with both quantitative and qualitative elements, with consideration given to business strategies and constraints. CTC actively monitors the credit exposure and limits, to ensure alignment with the CTC risk appetite.

**CRA (C):** At Community Trust the Board has the ultimate responsibility and authority for the lending policies and operations within the standards set by the Trust and Loan Companies Act. This responsibility includes establishing the overall risk appetite of CTC and ensuring policies and procedures are in place to ensure the Risk Appetite is being monitored and adhered to. The Board may delegate specific authorities and assign responsibilities to the CEO, Chief Mortgages Operations Officer, Chief Credit Risk Officer, Credit Committee and others as it deems appropriate.

The Credit Committee is an operating committee with the prime responsibility for carrying out the objectives of the credit risk management function within established policy guidelines. The Credit Committee reports to the Board.

The Independent Credit (Risk Management) function is a part of the second line of defence and contributes to sound asset management, and quality of the residential mortgage portfolio by demonstrating effective challenge to policies, procedures and current business practices. Independent Credit is responsible for the post funding portfolio quality control review program.

It is the responsibility of the Risk Management team to report to the Board and Risk Review Committee in respect of credit risk management; monitor the performance and quality of CTC's credit portfolio through measures of credit quality and trends; review all credit related policies and recommend changes to policy as required and ensure that Board approved Risk Appetite Statements are appropriately embedded in CTC's credit related policies and guidelines.

The Credit Risk Management team ensures that sound credit risk measurement and monitoring frameworks are developed and implemented; develops and maintains CTC's adjudication framework; continuously assesses the controls within the residential lending departments to ensure full compliance with credit policies and procedures and monitors credit risk model performance.

## Part 3 - General Disclosures (cont.)

**CRA (D):** The relationship between the credit risk management, risk control, compliance and internal audit functions are essential for ensuring CTC operates effectively and within regulatory boundaries.

At CTC all three lines of defence are responsible for managing credit risk. The first line is responsible for identification, assessment, mitigation, and reporting of credit risk. The second line owns the Enterprise Risk Management Framework, oversees risk management practices and results, and performs independent challenge, analysis and reporting. The Internal Audit function is responsible for conducting an independent audit of credit risk management practices on a periodic basis and reporting any findings and results to applicable committees.

In addition, the credit risk appetite, as approved by the board, is supported by risk approval authorities and risk limits which are delegated to CRO, Risk Review Committee and the senior management.

**CRA (E):** The executive management team, Credit Committee, Risk Review Committee and Board receive regular reporting on credit risk, including, but not limited to: portfolio composition and quality, portfolio performance, adherence to risk appetite, material changes to risk strategy, as well as other relevant metrics to monitor material risks as required.

Cash Resources and Securities (in \$000's)	Mar 31 2025	Dec 31 2024	Sep 30 2024	Jun 30 2024
Cash and non-interest bearing deposits with banks	804,528	593,030	556,662	511,305
Equities	-	-	-	-
	<b>804,528</b>	<b>593,030</b>	<b>556,662</b>	<b>511,305</b>

Exposure by Loan Types (in \$000's)	Mar 31 2025	Dec 31 2024	Sep 30 2024	Jun 30 2024
Single family - residential mortgages	5,300,841	5,079,695	4,738,834	4,506,761
Multi-family residential mortgages	-	-	-	-
Non-Residential mortgages	-	-	-	93
<b>Total mortgage receivable</b>	<b>5,300,841</b>	<b>5,079,695</b>	<b>4,738,834</b>	<b>4,506,854</b>
Personal loans	816,253	850,214	216,182	121,967
<b>Total loans receivable</b>	<b>816,253</b>	<b>850,214</b>	<b>216,182</b>	<b>121,967</b>
<b>Total lending</b>	<b>6,117,095</b>	<b>5,929,909</b>	<b>4,955,016</b>	<b>4,628,821</b>

## Part 3 - General Disclosures (cont.)



### Impaired loans

The following table shows mortgages and personal loans which management considers impaired. Mortgages and personal loans are classified as impaired when, in the opinion of Management, there is reasonable doubt as to the collectability, either in whole or in part, of principal and/or interest, or the mortgage is past due 90 days.

Impaired Mortgage Loans (in \$000's)	Mar 31 2025	Dec 31 2024	Sep 30 2024	Jun 30 2024
Mortgage principal plus accrued interest	117,375	99,430	85,159	56,352
Individual allowances	(10,455)	(8,496)	(7,448)	(5,515)
Net impaired loans	106,920	90,934	77,711	50,837
Appraised value of underlying properties	163,091	134,389	113,424	73,827

Impaired Personal Loans (in \$000's)	Mar 31 2025	Dec 31 2024	Sep 30 2024	Jun 30 2024
Personal loan principal plus accrued interest and fees	17,394	15,464	1,167	-
Individual allowances	(11,798)	(9,746)	(719)	-
Net impaired loans	5,596	5,718	448	-

### Allowance for losses

The allowance for losses is maintained at a level that is considered adequate to absorb incurred losses to the loan portfolio. An allowance is recorded when, in the opinion of management, there is no longer reasonable assurance of the collection of the full amount of principal and interest.

Allowance for mortgages, in an amount that approximates the present value of projected future cash flow shortfalls, are determined based on mortgage loans outstanding and the most recently adjusted appraised value of the underlying properties. The Company has both individual and Expected Credit Loss Allowances as described below.

Allowances for personal loans, in the above table, represents Stage 3 Expected Credit Loss as calculated by the Company's ECL model.

### Expected credit loss allowances

Expected Credit Loss Allowances are provided for losses incurred within the loan portfolio but not yet specifically identified and therefore not yet captured in the determination of individual allowances. The Company follows a methodology in assessing its Expected Credit Loss Allowances which considers industry conditions, market conditions, arrears, and trends as well as its own loss history, and considers the impact on the lending portfolio.



## Part 3 - General Disclosures (cont.)



Expected Credit Loss Allowance (in \$000's) – Mortgage Loans	Mar 31 2025	Dec 31 2024	Sep 30 2024	Jun 30 2024
<b>Stage 3 allowances</b>				
Balance, beginning of year / quarter	8,496	7,448	5,515	3,905
Provision for credit losses	2,923	1,385	2,249	2,041
Write-offs	(1,009)	(343)	(321)	(435)
Recoveries	46	6	5	4
Balance, end of year / quarter	10,455	8,496	7,448	5,515
<b>Stage 1 &amp; 2 allowances</b>				
Balance, beginning of year / quarter	14,813	15,561	13,408	12,648
Provision for credit losses	1,378	(748)	2,153	760
Balance, end of year / quarter	16,191	14,813	15,561	13,408
<b>Total allowances</b>	<b>26,646</b>	<b>23,309</b>	<b>23,009</b>	<b>18,923</b>
As a % of total principal outstanding	0.50%	0.46%	0.49%	0.42%

## Part 3 - General Disclosures (cont.)

Expected Credit Loss Allowance (in \$000's) – Personal Loans	Mar 31 2025	Dec 31 2024	Sep 30 2024	Jun 30 2024
<b>Stage 3 allowances</b>				
Balance, beginning of year / quarter	9,746	719	-	-
Provision for credit losses	17,999	12,814	719	-
Write-offs	(17,698)	(3,799)	-	-
Recoveries	1,751	-	-	-
Balance, end of year / quarter	11,798	9,746	719	-
<b>Stage 1 &amp; 2 allowances</b>				
Balance, beginning of year / quarter	53,308	9,795	5,413	903
Provision for credit losses	1,790	43,513	4,382	4,510
Balance, end of year / quarter	55,098	53,308	9,795	5,413
<b>Total allowances</b>	<b>66,896</b>	<b>63,054</b>	<b>10,514</b>	<b>5,413</b>
As a % of total principal outstanding	7.40%	6.72%	4.39%	4.01%

## Operational risks

### ORA: General qualitative information on CTC's operational risk framework

Operational Risk is defined as the risk of loss resulting from people, inadequate or failed internal processes and systems, or from external events.

CTC's Operational Risk Management Framework & Policy sets out the overall framework to identify, assess, monitor, measure, report and communicate operational risk within CTC. CTC follows applicable regulatory rules and regulations, including OSFI Guideline E-21 – Operational Risk Management. The CTC's Operational Risk Management Framework ("ORMF") ensures operational risk management is fully integrated throughout the Company. The ORMF is risk-based and establishes the foundation for consistent identification and assessment, independent review, and monitoring and reporting of operational risks across CTC to support decision making.

CTC employs the Three Lines of Defence model for the management of Operational Risk that helps to ensure effective accountability for the management of operational risk across the company. This risk management model is described briefly as follows:

## Part 3 - General Disclosures (cont.)

### a. First line of defence

CTC'S Business Units represent the first line of defence and are responsible for the day-to-day management of Operational Risk in their respective businesses. The First Line has the ownership and accountability to identify, manage, mitigate, monitor, escalate and report on all Operational Risks resulting from operating activities, in line with risk policies and appetite.

### b. Second line of defence

Second line of defence owns the risk policies and framework, and are responsible for effective challenge, oversight, and governance. The second line of defence comprises oversight functions including: Risk Management, Compliance, Finance, Risk Committees, and the Board.

### c. Third line of defence

This responsibility is fulfilled by CTC's internal auditor, external financial statement auditors, and independent consultants. The third line provides assurance to Senior Management and the Board on the effectiveness of Operational Risk Management policies and procedures, control processes and practices at CTC.

The Board of Directors provides challenge, advice, and guidance to executive management, as appropriate, on matters relating to operational risk management; reviews reports from the three lines of defence with respect to the CTC's risk profile; and works with executive management on the implementation of corrective action, if needed.

CTC uses the Simplified Standardized Approach to calculate operational risk capital. In effect, CTC holds capital for operational risk equal to 15% of average annual Adjusted Gross Income over the previous 12 fiscal quarters.

CTC's three lines of defence provide regular operational risk reporting to executive management and to the board of directors, ensuring that risk exposures and control gaps are timely identified, escalated, and addressed. Periodic reports include, but are not limited to, those produced from the CTC's Risk and Control Self-Assessment (RCSA) program, which includes assessment of key risk and performance indicators, and is the company's primary means for measuring, monitoring, managing, and reporting key risks. The RCSA program also helps the company identify and evaluate operational risks and gauge the effectiveness of controls in managing those risks.

CTC has policies that mitigate operational risks and are aligned with established OSFI guidelines. CTC's Risk Appetite Framework ("RAF") is an integral part of the company's Enterprise Risk Management Framework and is a primary tool to manage and mitigate operational risks. The RAF defines CTC's Risk Appetite Statement and determines corresponding risk limits. The Operational Risk Policy, in alignment with the Enterprise Risk Management Framework, based on the outcomes of the RCSA programs, defines the following risk response strategies:

## Part 3 - General Disclosures (cont.)

- a. **Accept:** The Company decides to accept, manage, and monitor the level of risk and take no action to reduce the risk.
- b. **Mitigate:** The Company is willing to accept some risk by implementing control processes to manage the risk within established tolerances.
- c. **Transfer:** The Company chooses to transfer the risk to a third party (e.g., obtaining insurance).
- d. **Avoid:** The Company feels the risk is unacceptable and will specifically avoid the risk (e.g., cease selling a product or lending in a specific market).

While operational risk can be monitored and minimized through a sound internal control structure, CTC recognizes that this risk can never be fully eliminated, as such, Management has internally identified its operational risk exposures in its ICAAP. This additional capital covers the additional risk surrounding new IT system implementation risk and cyber risk.

### Securitization risk

Securitization Risk is the risk of credit related losses greater than expected due to a securitization failing to operate as anticipated, or of the values and risks accepted or transferred, not emerging as expected.

CTC is an active issuer in the MBS and CMB programs. As an issuer the Company generates or acquires mortgage products that are CMHC insured and arranges for the pooling of such mortgages into MBS that also carry a Government of Canada guarantee. The Company utilizes a servicing agent that collect mortgage payments monthly and then distribute principal amounts collected and interest payable on the security.

CTC purchases and sells third party originated CMHC Mortgages in order to manage credit risk and improve capital ratios, as well as to generate liquidity and income for the Company.

Through the program, CTC issues securities backed by multi-family residential mortgages that are insured against borrowers' default. Once the mortgages are securitized, CTC assigns underlying mortgages to CMHC. As an issuer of MBS, CTC is responsible for advancing all scheduled principal and interest payments to CMHC, including transfer or payment in the event the amounts have not been collected on the underlying mortgages, and then recovers these amounts from the borrower.

The sale of mortgages under the above programs results in derecognition of the mortgages under IFRS.

## Part 3 - General Disclosures (cont.)

The following are the Company's positions held on its securitized assets and liabilities:

Securitized Assets (in \$000's)	Mar 31 2025	Dec 31 2024	Sep 30 2024	Jun 30 2024
Carrying amount of mortgages securitized and sold (multi-family residential mortgages)	6,438,308	6,289,772	6,237,981	6,141,479
Carrying value of securitization retained interests	138,212	102,471	105,563	112,342
Fair value of derivative assets	3,162	5,974	5,708	13,533
Fair value of derivative liabilities	3,162	5,974	5,708	13,533
Net position on derivatives	-	-	-	-

\* Effective Q1 2025, the above table has been revised to reflect securitization-related information only.

### Equity risk

The Company's equity risk is driven by market factors impacting the value of the Securities Investment Portfolio ("Portfolio"), such as, but not limited to, movements in foreign exchange, commodity prices, interest rates, credit spread and equity prices that may negatively impact the income or the value of the underlying Portfolio.

The risk relating to the Portfolio is the uncertainty associated with the valuation of assets arising from changes in equity markets. The portfolio is intended to be held for a longer term to provide both income and capital appreciation. In recognition of the higher market risk associated with this portfolio the company has established higher return objectives. CTC restricts the total Portfolio to 60% of its regulatory capital. In accordance with policy, CTC utilizes loss mitigation strategies to prevent any potential negative effects that would otherwise result in loss of capital.

The Board of Directors monitors total capital against all material risks identified with respect to the Company's business lines. Through the internal governance processes, the Company's senior management is responsible for the investment and capital allocation decisions and assessments and ensures that returns on investment are adequate after taking account of capital (capital vs. risk) requirements.

### Interest rate risk

The Company's operating margin is primarily derived from the spread between interest earned on the mortgage portfolio and the interest paid on the debt and deposits used to fund the portfolio. Mortgages have various interest rate reset terms, ranging from variable to five-year.

## Part 3 - General Disclosures (cont.)

The Company's Asset Liability and Capital Committee is responsible for monitoring, managing and reporting interest rate risk in accordance with Board approved policies. Compliance with various internal limits for net interest income and market value sensitivities are reported to the Risk Review Committee which has the oversight responsibility for risk practices.

The Company is exposed to interest rate risk as a result of the mismatch, or gap, between the maturity or reprising date of interest sensitive assets and liabilities. The following table identifies the Company's assets and liabilities which are sensitive to interest rate movements and those which are non-interest rate sensitive.

Interest Sensitive and Non-Sensitive (in \$'000s)	Mar 31 2025	Dec 31 2024	Sep 30 2024	Jun 30 2024
<b>Interest sensitive</b>				
Total assets	7,025,939	6,628,880	5,550,482	5,154,593
Total liabilities and equity	6,541,901	6,154,580	5,225,767	4,874,972
Total interest rate sensitivity gap	484,038	474,300	324,715	279,621
<b>Non-interest sensitive</b>				
Total assets	157,465	174,858	179,784	196,278
Total liabilities and equity	641,503	649,158	504,499	475,899
Total interest rate sensitivity gap	(484,038)	(474,300)	(324,715)	(279,621)

### Interest rate sensitivity

The following table provides the potential after-tax impact of an immediate and sustained 100 bps/ 300 bps increase or decrease in interest rates on Net income. These sensitivities are hypothetical and should be used with caution.

BPS Increases and Decreases (in \$'000s)	Mar 31 2025	Dec 31 2024	Sep 30 2024	Jun 30 2024
Before-tax impact on net income of:				
100 bps increase in interest rates	(978)	1,702	1,224	2,239
100 bps decrease in interest rates	978	(1,702)	(1,224)	(2,239)
300 bps increase in interest rates	(2,934)	5,107	3,671	6,718
300 bps decrease in interest rates	2,934	(5,107)	(3,671)	(6,718)

# Part 4 - Additional Disclosures

## OSFI B-20 Guideline

The Company discloses information in respect of its residential mortgage portfolio in accordance with the OSFI B-20 Residential Mortgage Underwriting Practices and Procedures Guideline, November 2014. The Company also discloses, in accordance with Capital Disclosure requirements of OSFI, the main features of its regulatory capital instruments. Both of these additional disclosures can be found on the Company's website at [www.communitytrust.com](http://www.communitytrust.com).

## Remuneration

CTC is subject to data protection legislation when disclosing remuneration information. The Personal Information Protection and Electronic Documents Act prohibits disclosing information that may result in individual information being easily identifiable. Remuneration disclosures are therefore made on a limited basis in terms of any public or company-wide circulation. All necessary information will be made available to OSFI upon request.

The Company's Conduct Review and Compensation Committee is responsible for oversight of the compensation pertaining to senior management, with ultimate responsibility borne by the Board. The Company's Compensation Management Policy outlines the principles to which the Board ensures alignment to. These principles are aligned with the Financial Stability Board's Principles for Sound Compensation Practices.

The Compensation Management Policy outlines the requirements for remuneration packages to be consistent within its business strategy, current financial condition, and long-term growth objectives.

The Company's compensation structure is based on a combination of fixed pay (salary and benefits) and performance related incentives linked to company-wide measures, as well as the seniority and nature of an individual's employment. Performance measurements used to calculate variable remuneration are therefore adjusted to take into account current or potential risks to the Company and are consistent with the need to retain a strong capital base.

For the year ended 2024, the total amount of all salaries, bonuses and long term incentives and other remuneration for key management employees whose actions have a material impact on the risk exposure of the Company, and members of the Board of Directors, was \$7.6 million.