# CANADIAN TIRE BANK

BASEL III PILLAR 3 DISCLOSURES

As at December 31, 2024

(unaudited)

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## 1. SCOPE OF APPLICATION

***Basis of preparation***

This document represents the Basel III Pillar 3 disclosures for Canadian Tire Bank ("the Bank"). The Basel III Pillar 3 disclosures included herein are made pursuant to the Pillar 3 Disclosure Guideline for Small and Medium-Sized Deposit Taking Institutions ("SMSBs") issued by the Office of the Superintendent of Financial Institutions ("OSFI") in January 2022 and updated in November 2023.

The Basel III capital adequacy framework prescribed by OSFI is applied to the consolidated operations of the Bank, which include the Bank and a structured entity, Glacier Credit Card Trust ("GCCT"). The Bank is a wholly owned subsidiary of CTFS Holdings Limited ("CTFS Holdings"), itself a subsidiary of Canadian Tire Services Limited, formerly Canadian Tire Financial Services Limited, ("CTS") which owns eighty percent of the common shares of CTFS Holdings. CTS is a wholly owned subsidiary of Canadian Tire Corporation, Limited ("CTC"), the Bank's ultimate parent, and owner of the remaining twenty percent of the common shares of CTFS Holdings.

The Bank is not considered a Domestic Systemically Important Bank by OSFI. The Bank is a Category II SMSB and the content of the disclosures are tailored to the nature, size, and complexity of the Bank.

The Bank is a federally regulated Schedule I bank that is the marketer and issuer of Triangle branded consumer credit cards including the Triangle Mastercard and Triangle World Elite Mastercard. CTB's close integration with CTC's retail banners and Canadian Tire dealers provides an advantage in acquiring new accounts and meeting the needs of CTC's most loyal customers.

As a deposit taking institution, CTB also offers and markets high-interest savings accounts and guaranteed investment certificates ("GICs"), both within and outside tax-free savings accounts, and offers GICs through third party brokers.

This report is unaudited and is reported in thousands of Canadian Dollars, unless otherwise disclosed.

Additional information is available from OSFI's Financial Data for Banks website.

***Risk Management Framework***

The Board of Directors has oversight responsibility for the Bank's risk management framework, which specifically includes:

- Responsibility for oversight of the Bank's financial statements, financial reporting processes and the quality of its financial reporting including the accounting principles, significant judgments and disclosures;
- Responsibility for oversight of the risk management functions of the Bank with the assistance of and reporting by the Chief Risk Officer; and
- Responsibility for approving appropriate and prudent risk management policies (including tolerance limits) to mitigate business risks. This includes but is not limited to approving the Bank's Risk Appetite Framework ("RAF").

The Board of Directors has established the Audit and Risk Management Committee to assist with its oversight responsibilities with respect to financial reporting, internal controls, external and internal auditors, enterprise risk management, and other matters as delegated by the Board of Directors. In addition, the Board of Directors has established the Governance, Conduct Review and Market Conduct Committee to fulfill its responsibilities with respect to corporate governance and regulatory compliance, including self-dealing/related party and consumer provision-related matters.

Management has established the below committees in order to identify and monitor existing and emerging risks faced by the Bank, set out the appropriate controls and risk limits, and establish processes for monitoring adherence to these limits.

- Asset Liability Management Committee ("ALCO")
    - Provides oversight to ensure the Bank's balance sheet risks (including capital, liquidity and funding, investment and counterparty, interest rate, and foreign exchange) are managed within established risk tolerance limits; and
    - Monitors financial market conditions and regulatory changes impacting balance sheet risks in addition to ongoing internal monitoring and compliance reporting.
- Cross – Functional Risk Committee ("CRC")
    - Oversees the management of the Bank's key risks including identification, assessment, and monitoring of risks and promotes an integrated and effective risk management culture; and
    - Reviews regular risk management reports describing outstanding risks issues and risk mitigation activities.

## 2. CAPITAL ADEQUACY

The Bank manages its capital under guidelines established by OSFI. OSFI's regulatory capital guidelines are based on the international Basel Committee on Banking Supervision ("BCBS") framework entitled Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems ("Basel III"), which came into effect in Canada on January 1, 2013. Basel III is a global regulatory accord that was introduced to enhance the regulation, supervision, and risk management practices within the banking sector. The Bank has implemented several capital policies, procedures, and controls, including an annual Internal Capital Adequacy Assessment Process ("ICAAP"). These measures support the Bank in achieving its goals and objectives.

The Bank's objectives include maintaining adequate levels of capital to:

- meet all applicable regulatory requirements;
- maintain and reinforce confidence in the safety and soundness of the Bank;
- support growth in assets and liabilities; and
- offset unexpected operating and investment losses and volatility.

***Capital and leverage ratios***

The capital and leverage ratios are prescribed in OSFI's Capital Adequacy Requirements and Leverage Requirements Guidelines. The capital ratios are calculated as regulatory capital divided by risk-weighted assets ("RWA"). The leverage ratio provides an overall measure of the adequacy of an institution's capital and is calculated as the total Tier 1 capital divided by the leverage exposure.

RWA includes a credit risk component for all on-balance sheet assets weighted for the risk inherent in each type of asset, off-balance sheet financial instruments, an operational risk component based on a percentage of the trailing 3-year annual average adjusted gross income and a market risk component for assets held for trade. For the purposes of calculating RWA, securitized assets are considered off-balance sheet and, therefore, except for the Bank's retained exposure, are not included in the RWA calculation.

The Bank uses the standardized approach for credit risk, the simplified standardized approach for operational risk, and the basic approach for credit valuation adjustment risk. The Bank is not required to hold any capital for market risk as the Bank does not have a trading book.

The leverage exposure is the sum of on-balance sheet exposures, derivatives exposures, securities financing transactions exposures, subordinate loans, and a portion of unused credit limits, with a reduction for off-balance sheet items, which include securitized assets. The components of the leverage ratio exposure are presented in Note 16.

As at December 31, 2024 and 2023, the Bank complied with all regulatory capital requirements established by OSFI and its internal targets as determined by its ICAAP.

## 3. CAPITAL STRUCTURE

OSFI's regulatory capital guidelines under Basel III allow for two tiers of capital: Tier 1 and Tier 2. Tier 1 capital incorporates Common Equity Tier 1 ("CET1") capital, which includes common shares, retained earnings and accumulated other comprehensive income, less regulatory adjustments. The Bank currently does not hold any additional Tier 1 capital instruments. Tier 2 capital consists of the eligible portion of general allowances. Total capital is the sum of Tier 1 and Tier 2 capital.

| | | 2024 | 2023 |
|---|---|---|---|
| **Common Equity Tier 1 capital: instruments and reserves** | | | |
| 1 | Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus | **$ 431,631** | **$ 431,631** |
| 2 | Retained earnings | **571,060** | **569,759** |
| 3 | Accumulated other comprehensive income (and other reserves) | **39,503** | **40,518** |
| 6 | **Common Equity Tier 1 capital before regulatory adjustments** | **1,042,195** | **1,041,908** |
| **Common Equity Tier 1 capital: regulatory adjustments** | | | |
| 28 | Total regulatory adjustments to Common Equity Tier 1 | **(44,807)** | **(49,037)** |
| 29 | **Common Equity Tier 1 capital (CET1)** | **$ 997,388** | **$ 992,871** |
| **Additional Tier 1 capital: instruments** | | | |
| 36 | **Additional Tier 1 capital before regulatory adjustments** | **-** | **-** |
| **Additional Tier 1 capital: regulatory adjustments** | | | |
| 43 | **Total regulatory adjustments to additional Tier 1 capital** | **-** | **-** |
| 44 | **Additional Tier 1 capital (AT1)** | **-** | **-** |
| 45 | **Tier 1 capital (T1 = CET1 + AT1)** | **$ 997,388** | **$ 992,871** |
| **Tier 2 capital: instruments and provisions** | | | |
| 51 | **Tier 2 capital before regulatory adjustments** | **72,282** | **70,339** |
| **Tier 2 capital: regulatory adjustments** | | | |
| 57 | Total regulatory adjustments to Tier 2 capital | - | - |
| 58 | **Tier 2 capital (T2)** | **72,282** | **70,339** |
| 59 | **Total capital (TC = T1 + T2)** | **$ 1,069,670** | **$ 1,063,209** |
| 60 | **Total risk-weighted assets** | **$ 6,667,496** | **$ 6,496,636** |
| **Capital ratios** | | | |
| 61 | Common Equity Tier 1 (as percentage of risk-weighted assets) | **15.0%** | **15.3%** |
| 62 | Tier 1 (as percentage of risk-weighted assets) | **15.0%** | **15.3%** |
| 63 | Total capital (as percentage of risk-weighted assets) | **16.0%** | **16.4%** |
| **OSFI target** | | | |
| 69 | Common Equity Tier 1 target ratio | 7.0% | 7.0% |
| 70 | Tier 1 capital target ratio | 8.5% | 8.5% |
| 71 | Total capital target ratio | 10.5% | 10.5% |

## 4. CREDIT RISK: GENERAL DISCLOSURES

Credit risk is the risk of financial loss resulting from the failure of a debtor, for any reason, to fully honor its financial contractual obligations to the Bank. This is the most significant financial 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
- Risk Tolerance Limits
- Credit Risk Identification
- Credit Granting and Collections
- Impaired Loans, Allowance 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 receivables 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

***Credit risk by exposure type***

| | | 2024 | | 2023 |
|---|---|---|---|---|
| Investment securities | | | | |
| Government debt securities | $ | 151,188 | $ | 211,427 |
| Bank and corporate debt securities | | 251,034 | | 185,479 |
| Loans receivable[1] | | 6,634,538 | | 6,495,559 |
| Total | $ | 7,036,759 | $ | 6,892,465 |

[1] Net loans receivable including securitized loans

***Credit risk by contractual maturity***

| | As at December 31, 2024 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Less than 3 months | | 3 months to 1 year | | 1 to 3 years | | 3 to 5 years | | >5 years | | Total |
| Investment securities | | | | | | | | | | | | |
| Government debt securities | $ | 64,688 | $ | 26,501 | $ | - | $ | 60,000 | $ | - | $ | 151,188 |
| Bank and corporate debt securities | | 251,034 | | - | | - | | | | - | | 251,034 |
| Loans receivable[1] | | 6,634,538 | | - | | | | - | | - | | 6,634,538 |
| Total | $ | 6,950,259 | $ | 26,501 | $ | | $ | 60,000 | $ | - | $ | 7,036,759 |

[1] Net loans receivable including securitized loans

***Allowance for credit losses***

Expected Credit Losses ("ECL") are calculated as the product of the probability of default, exposure at default, and loss given default over the remaining expected life of the financial instrument and discounted to the reporting date. The ECL model also incorporates forward-looking information, which increases the degree of judgment required as to how changes in macro-economic factors will affect ECLs. Macro-economic factors taken into consideration include, but are not limited to, unemployment rate, and require an evaluation of both the current and forecast direction of the macro-economic cycle. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

The ECL approach measures the loss allowance using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk since initial recognition of a financial instrument, an amount equal to 12-month ECL is recorded, which represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.
- Stage 2 – Financial instruments that have experienced a significant increase in credit risk subsequent to origination but are not in default, an amount equal to lifetime ECL is recorded. Lifetime ECL represents the expected losses that will result from all probable default events over the expected life of a financial instrument.
- Stage 3 – Financial instruments that are considered to be in default (credit impaired) are included in this stage. Similar to Stage 2, the allowance is recognized at lifetime ECL.

A significant increase in credit risk is assessed based on changes in the probability of default since initial recognition along with borrower-specific qualitative information, or when the loan is 30 days past due. Credit card loans are considered impaired and in default when they are contractually 90 days past due or there is sufficient doubt about the ultimate collectability of principal and/or interest.

The Bank recognizes a loss allowance on a forward-looking basis at an amount equal to the lifetime ECL on its financial assets measured at amortized cost, except for the following, which are measured at 12-month ECL:

- Debt investments that are determined to have low credit risk at the reporting date with a credit risk rating equivalent to investment grade; and
- Other financial assets, such as loan receivables, for which credit risk has not increased significantly since initial recognition.

All loans receivable are assessed for impairment. All loans receivable found not to be specifically impaired are then collectively assessed for impairment. Loans receivables are collectively assessed for impairment by grouping together loans receivable with similar risk characteristics.

***Allowance for credit losses***

| | 12 month ECL (Stage 1) | Lifetime ECL not credit impaired (Stage 2) | Lifetime ECL credit impaired (Stage 3) | **Total** |
|---|---|---|---|---|
| Allowance for credit losses, beginning of year | **$ 362,092** | **$ 234,752** | **$ 329,420** | **$ 926,264** |
| Write Offs | (15,948) | (54,225) | (569,773) | (639,946) |
| Recoveries | - | - | 104,579 | 104,579 |
| New loans originated | 32,675 | - | - | 32,675 |
| Transfers | | | | |
| to Stage 1 | 94,399 | (60,857) | (33,542) | - |
| to Stage 2 | (35,924) | 43,198 | (7,274) | - |
| to Stage 3 | (31,537) | (55,478) | 87,015 | - |
| Net re-measurement | (55,377) | 119,710 | 447,918 | 512,251 |
| **Allowance for credit losses, end of year** | **$ 350,380** | **$ 227,100** | **$ 358,343** | **$ 935,823** |

The Bank continues to seek recovery on amounts that were written-off during the year. The Bank pursues recovery unless it no longer has the right to collect, the receivable has been sold to a third party, or all reasonable efforts to collect have been exhausted.

The following table sets out information about the credit risk exposure of loans receivables at December 31, 2024:

| | (Stage 1) | (Stage 2) | (Stage 3) | **Total** |
|---|---|---|---|---|
| Low risk | $ 3,484,477 | $ 32,621 | $ - | $ 3,517,098 |
| Moderate risk | 1,957,626 | 119,782 | - | 2,077,408 |
| High risk | 897,522 | 409,500 | 668,833 | 1,975,855 |
| Total gross carrying amount | 6,339,625 | 561,903 | 668,833 | 7,570,361 |
| ECL allowance | 350,380 | 227,100 | 358,343 | 935,823 |
| **Net carrying amount** | **$ 5,989,245** | **$ 334,803** | **$ 310,490** | **$ 6,634,538** |

***Past due loans***

A loan is considered past due when a customer has not made the indicated payment by the contractual due date. The following table presents the carrying value of loans that are past due on the reporting date. Credit card loans are written down to their net realizable value when a payment is 180 days in arrears or when likelihood of collection is remote. No collateral is held against loans receivable.

| | As at December 31, 2024 | | | |
|---|---|---|---|---|
| | 1-30 days | 31-90 days | > 90 days | Total |
| Loans receivable | $ 267,391 | $ 141,952 | $ 124,028 | $ 533,371 |

## 5. CREDIT RISK: DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDIZED APPROACH

Credit ratings for investment securities are obtained from three rating agencies - DBRS Morningstar, S&P Global and Moody's Investors Service. Investment securities consist of government debt securities and bank and corporate debt securities. Investment securities have risk-weightings from 0% to 100% based on their credit rating. Derivative instruments consist of foreign exchange and interest rate derivatives and are risk weighted from 20% to 75% according to their counterparty.

***Risk-weighted assets by exposure type***

| | 2024 Risk Weighting | 2024 | 2023 Risk Weighting | 2023 |
|---|---|---|---|---|
| Government debt securities | 0% | $ - | 0% | $ - |
| Bank and corporate debt securities | 20% | **50,207** | 20% | **37,096** |
| Derivative instruments | 20% - 75% | **38,384** | 20% - 100% | **39,815** |

## 6. CREDIT RISK: DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE INTERNAL RATINGS-BASED APPROACH

The Bank does not have any portfolios subject to the Internal Ratings-Based Approach.

## 7. CREDIT RISK MITIGATION

Loans receivable consist of credit card and other loans receivable. The loans are unsecured and are not guaranteed. Investment securities are subject to the policies, procedures and controls as described in Note 8.

## 8. COUNTERPARTY CREDIT RISK

Counterparty credit risk is the risk that the counterparty to a transaction may default prior to the final settlement of the cash flows pertaining to that transaction. This may relate to financial derivatives, securities financing transactions and long settlement transactions.

The Bank's Credit Risk Management and Securities and Derivatives Policies establish how the Bank manages counterparty credit risks incurred through its business activities. The Board of Directors has overall responsibility for the Credit Risk Management and Securities and Derivatives Policies by ensuring that management has a framework and policies, processes and procedures in place to manage counterparty credit risks and that the overall counterparty credit risk policies are complied with at the business transaction level. The Bank is committed to ensuring the preservation of capital and maintaining adequate liquidity to meet cash flow requirements. The Bank does not invest or enter into derivative transactions for speculative purposes. Counterparty credit risk will be minimized by:

- Setting minimum acceptable credit ratings for investments;
- Setting maximum group limits for related issuers;
- Limiting investments to higher credit quality fixed income securities with a maximum maturity of five years; and
- Diversifying the portfolio so that potential losses on individual securities are minimized.

***Counterparty credit risk exposure***

| | 2024 | 2023 |
|---|---|---|
| Government debt securities | **$ 151,188** | $ 211,427 |
| Bank and corporate debt securities | **251,034** | 185,479 |
| Derivative Instruments | **58,591** | 74,218 |

Credit valuation adjustment (CVA) risk is the risk of losses arising from changing CVA values that result from changes in counterparty credit spreads and market risk factors that drive prices of derivative transactions.

The Bank uses the reduced version of the basic approach (BA-CVA) to calculate CVA capital requirements. The Bank does not hedge CVA risk.

**Credit valuation adjustment risk**

| | As at December 31, 2024 | | |
|---|---|---|---|
| | | a | b |
| | | Components | Capital requirements under BA-CVA |
| 1 | Aggregation of systematic components of CVA risk | **$ 16,318,632,648** | |
| 2 | Aggregation of ideosyncratic components of CVA risk | **8,045,786,242** | |
| 3 | Total | | **$3,208** |

## 9. SECURITIZATION

The Bank acts as originator, seller and servicer to its own 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. Strictly for the purpose of calculating RWA, securitization transactions are 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.

GCCT is a structured entity that was created to securitize the Bank's credit card loans receivable. The Bank has transferred co-ownership interest in credit card loans receivable to GCCT and has determined, for the purposes of accounting, consolidation of GCCT is appropriate. The associated liabilities secured by these assets, include the commercial paper notes and term notes on the consolidated statement of financial position and are carried at amortized cost. The table below sets out the carrying amounts and fair values of the Bank's transferred credit card loan receivables and associated liabilities.

| | 2024 | | 2023 | |
|---|---|---|---|---|
| | **Carrying value** | **Fair value** | **Carrying value** | **Fair value** |
| Credit card loans receivable transferred | **$ 2,274,140** | **$ 2,274,140** | $ 2,283,314 | $ 2,283,314 |
| Associated liabilities | **2,268,703** | **2,325,773** | 2,277,826 | 2,277,163 |
| Net position | **$ 5,437** | **$ (51,633)** | $ 5,488 | $ 6,151 |

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 Series 1997-1 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 commercial paper 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 at the conclusion of this note (page 14) occur.

***Term notes***

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

| | Expected Repayment Date | Coupon Interest Rate | 2024 | 2023 |
|---|---|---|---|---|
| Senior notes | | | | |
| Series 2019-1 | June 6, 2024 | 2.280% | - | **523,600** |
| Series 2020-1 | September 22, 2025 | 1.388% | **448,800** | **448,800** |
| Series 2020-B | April 30, 2025 | Variable | **1** | **1** |
| Series 2022-1 | September 20, 2027 | 4.958% | **420,750** | **420,750** |
| Series 2023-1 | September 20, 2028 | 5.681% | **467,500** | **467,500** |
| Series 2024-1 | September 20, 2026 | 4.740% | **514,250** | - |
| | | | **$ 1,851,301** | **$ 1,860,651** |
| Subordinated notes | | | | |
| Series 2019-1 | June 6, 2024 | 3.430% | - | **36,400** |
| Series 2020-1 | September 22, 2025 | 2.438% | **31,200** | **31,200** |
| Series 2022-1 | September 20, 2027 | 6.108% | **29,250** | **29,250** |
| Series 2023-1 | September 20, 2028 | 6.881% | **32,500** | **32,500** |
| Series 2024-1 | September 20, 2026 | 5.588% | **35,750** | - |
| | | | **$ 128,700** | **$ 129,350** |
| Transaction costs | | | **(5,094)** | **(5,267)** |
| | | | **$ 1,974,907** | **$ 1,984,734** |

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 as part of the interest expense.

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. Senior note interest will be paid prior to subordinated note interest and senior note principal will be paid prior to subordinated note principal. Interest on the senior and subordinated notes will be paid prior to payment of principal on the senior or subordinated notes. The series notes, together with certain other permitted obligations of GCCT, are secured by a co-ownership interest in 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 Trust Indenture and the related series supplements under which these series of notes were issued, as well as the series purchase agreements which set forth the Bank's over collateralization.

Repayment of the principal of the series 2020-1, 2020-B, 2022-1, 2023-1 and 2024-1 notes is scheduled to commence and be completed on the expected repayment dates indicated in the preceding table. Following repayment of interest owing under the senior and subordinated notes and principal owing 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 the expected repayment date (an amortization period) if certain events occur, including:

a) The Bank (as seller or servicer) 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; or
c) Insufficient receivables in the pool.

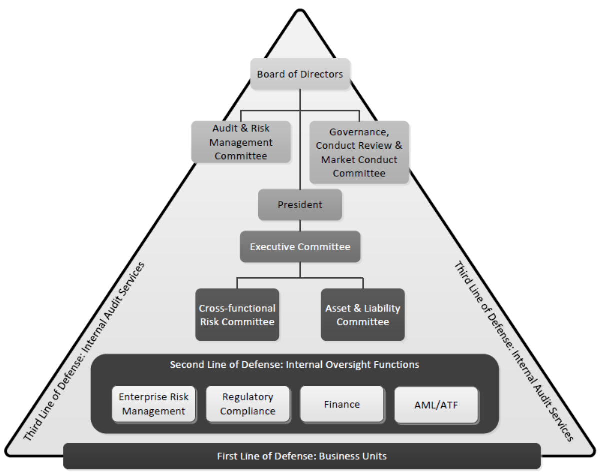
None of these events have occurred for the years ending December 31, 2024, and 2023.

## 10. OPERATIONAL RISK

The Bank has developed a comprehensive and formal enterprise-wide Operational Risk Management Framework (“ORMF”), which supports and governs the Bank’s processes for identifying, assessing, managing, monitoring and reporting on operational risks and aligns with OSFI’s Operational Risk Management (E-21) Guideline. The ORMF incorporates several key principles for effective operational risk management, including:

- integration and documentation of operational risk management into the overall Enterprise Risk Management (“ERM”) Program;
- maintenance and use of an operational risk appetite statement (and supporting risk tolerance limits and key risk indicators),
- a risk governance structure that incorporates a three lines of defence model for effective accountability and adequate oversight and challenge; and,
- a suite of tools and processes for identifying, assessing, monitoring, and mitigating operational risks impacting the organization.

The Bank has a comprehensive governance structure which emphasizes strong independent oversight of the Bank’s business activities and provides clear ownership for the management of risk. The ERM Program and associated frameworks including the ORMF are governed through a hierarchy of committees and individuals, across the three lines of defence, with clear and well-established accountabilities for the management of risk as illustrated in the diagram below:



The Bank's ERM Program includes a comprehensive set of policies, operating directives and frameworks, which guide the business activities of the Bank, identify accountabilities and authorities, and set risk limits and controls within which the Bank operates. All policies are approved by the Chief Risk Officer and reviewed by either the CRC or ALCO before being recommended to the Board for approval.

The Bank has developed a suite of operational risk management tools and processes used by the first and second lines of defence to identify and assess operational risks. These tools and processes are reviewed on a regular basis to ensure they remain current and relevant and are supported by an operating directive and standard operating procedures. To further mitigate operational risk, the bank also emphasizes strong internal controls, segregation of duties within key business units, as well as a culture of risk aware individuals.

The Bank uses the Simplified Standardized Approach for operational risk. Operational risk is based on a percentage of the trailing 3-year annual average adjusted gross income from the Bank's financial reporting system.

## 11. EQUITIES

The Bank holds equity investments that are recorded at $nil cost as the shares were awarded at no cost, are not quoted in an active market and their fair value cannot be reliably measured.

## 12. INTEREST RATE RISK

Interest rate risk reflects the Bank's financial sensitivity to movements in interest rates. Interest rate exposure may produce favorable or unfavorable 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.

***Objectives and policies***

The Bank aims to effectively and efficiently manage its consolidated statement of financial position to maximize shareholder value while adhering to the risk limits outlined in the Asset Liability Management Policy.

The Asset Liability Management Policy outlines the following interest rate risk limits for the most adverse impact as a result of applying OSFI's prescribed interest rate shocks:

- Actual and projected net interest income ("NII") for the next 12 months may decline by no more than 6% (consistent with a limit of 6% in 2023)
- Actual and projected Economic Value of Equity ("EVE") for the next 12 months may decline by no more than 12% (consistent with a limit of 12% in 2023)

The Bank employs a simplified approach where the baseline EVE is assumed to be equal to the book value of shareholder's equity. The shocked EVE values are determined by calculating the present value of assets less the present value of liabilities.

The Bank mitigates its interest rate risks by entering into hedging contracts in accordance with the guidelines in the Asset Liability Management Policy to hedge securitization and deposit issuances that are expected to be completed within the next five years.

To evaluate the potential effects of movements in interest rates on the Bank's financial performance, sensitivity analyses are conducted regularly. These analyses project the impact of OSFI prescribed interest rate shocks on the Bank's NII and EVE. The results of these analyses indicate potential changes in key financial metrics.

The following table provides the projected impact of a 200 bps and 100 bps decrease or increase in interest rates.

| | | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Limit** | **200 bps** | **100 bps** | **+100 bps** | **+200 bps** | **200 bps** | **100 bps** | **+100 bps** | **+200 bps** |
| Net Interest Income | **-6%** | **1.3%** | **0.6%** | **-0.4%** | **-0.8%** | **1.8%** | **0.8%** | **-0.6%** | **-1.1%** |
| Net Economic Value of Equity | **-12%** | **4.1%** | **-0.6%** | **0.2%** | **5.6%** | **2.5%** | **-1.1%** | **0.0%** | **4.8%** |

## 13. FOREIGN EXCHANGE RISK

The Bank has immaterial on balance sheet foreign currency exposure. Derivative contracts are used to hedge contractual commitments with US vendors.

## 14. LIQUIDITY AND FUNDING RISK

Liquidity and funding risk is the risk that the Bank may be unable to generate or obtain sufficient cash or its equivalent in a timely and cost-effective manner to meet its commitments as they come due.

***Objectives, policies and processes***

It is the Bank's objective to ensure the availability of adequate funds by maintaining a strong liquidity management framework and to satisfy all applicable regulatory and statutory requirements. The Asset Liability Management Policy dictates liquidity and funding limits and requires the establishment of an annual Liquidity and Funding Plan which includes risk measurement methodologies, scenario analysis, stress testing and also provides roles, responsibilities and key actions in managing a liquidity crisis. Stress tests are conducted on a regular basis for a variety of bank-specific and market-wide stress scenarios to identify sources of potential strain, to measure the impact on funding requirements and to ensure that current exposures remain in accordance with the Bank's established liquidity and funding risk tolerance. Stress test scenarios include disruption to the securitization funding market, immediate terminations within broker deposits, unexpected and persistent withdrawals of retail deposits, and balance sheet growth greater than forecast.

The Asset Liability Management Policy dictates that the Bank must maintain a minimum liquidity coverage ratio of 110% (2023 – 110%). The liquidity coverage ratio measures the amount of liquid assets available to offset net cash outflows over a 30-day period that could occur under an acute short-term stress scenario.

The Bank's liquidity coverage ratio at December 31, 2024 was 137% (2023 – 120%).

The Bank assesses the adequacy of its liquidity position by analyzing its current liquidity position, present and anticipated funding requirements, and alternative sources of funds. Future cash inflows and outflows as well as the above noted ratio are forecast daily.

The Bank maintains a variety of funding sources to reduce the concentration risk from any one source. The Bank's funding sources include cash from operations, securitization of credit card loans receivable, broker deposits, retail deposits, bank line of credit and intercompany borrowings. The Bank has direct access to $1.1 billion (2023 - $1.1billion) in committed credit facilities maturing April 2025. In addition, as of December 31, 2024, GCCT has direct access to a $300 million (2023 - $300 million) committed liquidity facility maturing June 2027 that serves as backstop protection for its asset-backed commercial paper program. The Bank did not have borrowings outstanding under these facilities as at December 31, 2024 (2023 - $147.0 million).

## 15. LEVERAGE RATIO

The following summarizes the Bank's leverage ratio.

| | | 2024 | 2023 |
|---|---|---|---|
| **On-balance sheet exposures** | | | |
| 1 | On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral) | $ 5,042,191 | $ 4,853,858 |
| 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 Basel III Tier 1 capital) | (44,807) | (49,037) |
| 5 | **Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 4)** | $ 4,997,384 | $ 4,804,821 |
| **Derivative exposures** | | | |
| 6 | Replacement cost associated with all derivative transactions | $ 82,028 | $ 103,726 |
| 7 | Add-on amounts for PFE associated with all derivative transactions | 52,032 | 45,284 |
| 8 | (Exempted CCP-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)** | $ 134,060 | $ 149,010 |
| **Securities financing transaction exposures** | | | |
| 16 | **Total securities financing transaction exposures (sum of lines 12 to 15)** | - | - |
| **Other off-balance sheet exposures** | | | |
| 17 | Off-balance sheet exposure at gross notional amount | $ 12,749,500 | $ 12,005,937 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (9,562,125) | (8,954,195) |
| 19 | **Off-balance sheet items (sum of lines 17 and 18)** | $ 3,187,376 | $ 3,051,742 |
| **Capital and total Exposures** | | | |
| 20 | **Tier 1 capital** | $ 997,388 | $ 992,871 |
| 21 | **Total Exposures (sum of lines 5, 11, 16 and 19)** | $ 8,318,819 | $ 8,005,572 |
| **Leverage Ratios** | | | |
| 22 | **Basel III leverage ratio** | 12.0% | 12.4% |

## 16. REMUNERATION

The Bank follows the remuneration policies of its ultimate 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***

| | 2024 | 2023 |
|---|---|---|
| Salaries and other short-term employee benefits | $ **3,171** | $ **4,492** |
| Share-based payment transactions | **926** | **1,663** |
| Directors fees, expenses and share unit plan | **685** | **590** |
| Other long-term benefits | **340** | **427** |
| Termination benefits | **1,340** | **-** |
| | $ **6,462** | $ **7,172** |

In addition to their salaries, the Bank’s employees participate in the employee future benefit plan of CTC, which provides certain health care, dental care, life insurance and other benefits, but not pensions, to employees upon retirement. 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 STIP is to motivate and reward senior managers for the achievement of annual operating 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. In determining the payout under the STIP plan, performance is measured against both financial and non-financial measures to avoid inappropriate risks.

The 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.

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

## 17. KEY METRICS

| | | December 31, 2024 | September 30, 2024 | **June 30, 2024** | **March 31, 2024** | **December 31, 2023** |
|---|---|---|---|---|---|---|
| **Available capital (amounts)** | | | | | | |
| 1 | Common Equity Tier 1 (CET1) | $ 997,388 | $ 996,645 | $ 1,065,643 | $ 984,639 | $ 992,871 |
| 1a | Common Equity Tier 1 with transitional arrangements for ECL provisioning not applied | | | | | |
| 2 | Tier 1 | 997,388 | 996,645 | 1,065,643 | 984,639 | 992,871 |
| 2a | Tier 1 with transitional arrangements for ECL provisioning not applied | | | | | |
| 3 | **Total capital** | 1,069,670 | 1,068,799 | 1,137,101 | 1,053,904 | 1,063,209 |
| 3a | **Total capital with transitional arrangements for ECL provisioning not applied (%)** | | | | | |
| **Risk-weighted assets (amounts)** | | | | | | |
| 4 | Total risk-weighted assets (RWA) | $ 6,667,496 | $ 6,659,702 | $ 6,601,725 | $ 6,421,496 | $ 6,496,636 |
| 4a | Total risk-weighted assets (pre-floor) | | | | | |
| **Risk-based capital ratios as a percentage of RWA** | | | | | | |
| 5 | CET1 ratio (%) | 15.0% | 15.0% | 16.1% | 15.3% | 15.3% |
| 5a | Common Equity Tier 1 ratio with transitional arrangements for ECL provisioning not applied | | | | | |
| 5b | CET1 ratio (%) (pre-floor ratio) | | | | | |
| 6 | Tier 1 ratio (%) | 15.0% | 15.0% | 16.1% | 15.3% | 15.3% |
| 6a | Tier 1 ratio with transitional arrangements for ECL provisioning not applied (%) | | | | | |
| 6b | Tier 1 ratio (%) (pre-floor ratio) | | | | | |
| 7 | Total capital ratio (%) | 16.0% | 16.0% | 17.2% | 16.4% | 16.4% |
| 7a | Total capital ratio with transitional arrangements for ECL provisioning not applied (%) | | | | | |
| 7b | Total capital ratio (%) (pre-floor ratio) | | | | | |
| **Additional CET1 buffer requirements as a percentage of RWA** | | | | | | |
| 8 | Capital conservation buffer requirement (2.5% from 2019) (%) | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% |
| 9 | Countercyclical buffer requirement (%) | N/A | N/A | N/A | N/A | N/A |
| 11 | **Total of bank CET1 specific buffer requirements (%)** | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% |
| 12 | CET1 available after meeting the bank's minimum capital requirements (%) | 12.5% | 12.5% | 13.6% | 12.8% | 12.8% |
| **Basel III Leverage ratio** | | | | | | |
| 13 | Total Basel III leverage ratio exposure measure | $ 8,318,819 | $ 8,321,914 | $ 8,153,305 | $ 8,135,106 | $ 8,005,572 |
| 14 | **Basel III leverage ratio (row 2 / row 13)** | 12.0% | 12.0% | 13.1% | 12.1% | 12.4% |
| 14a | **Basel III leverage ratio (row 2a / row 13) with transitional arrangements for ECL provisioning not applied** | | | | | |