PEOPLES TRUST COMPANY

PUBLIC DISCLOSURES

(BASEL III PILLAR 3)

As at December 31, 2014

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Disclosure Policy

This document represents the Basel III Pillar 3 disclosures for Peoples Trust Company. These disclosures are made pursuant to 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 (the "BCBS").

This policy is approved by the Board and is subject to annual review, following publication of the Annual Report.

Location and Verification

These Pillar 3 disclosures are published under the Regulatory Disclosures section of the company's website. The disclosures made in this statement are made on a consolidated basis and include the accounts of Peoples Trust Company and its subsidiaries, 1155329 Alberta Ltd., Peoples Card Services Ltd., Peoples Card Services LP, Peoples Trust Financial Ltd., West Park Holdings Ltd., and Carrall Street Holdings Ltd.

This report is subject to internal review but has not been audited by PTC's external auditors.

Background

Peoples Trust Company ("PTC") is a Canadian, wholly-owned, federally regulated trust company, supervised by OSFI. PTC was incorporated under the *Trust and Loan Companies Act* on October 3, 1978 and maintains its registered office at 1400 – 888 Dunsmuir Street, Vancouver, British Columbia, V6C 3K4.

PTC, and its subsidiaries, Peoples Card Services Ltd. and Peoples Trust Financial Ltd., provide niche financial services to the Canadian marketplace.

PTC originates and services a variety of mortgage products which include Canada Mortgage Housing Corporation ("CMHC") insured mortgages, conventional mortgages, and contractual loans. PTC regularly participates in the National Housing Authority (NHA) Mortgage Backed Security (MBS) and Canada Mortgage Bond (CMB) programs. The company also offers very competitive Canada Deposit Insurance Corporation (CDIC) insured deposit products, provides Visa and MasterCard programs, merchant acquiring, and other financial services.

PTC is a privately held company, and is licensed to conduct operations across Canada. Its primary owner is Peoples Trustco Ltd., also a privately held, wholly Canadian owned company.

Statement of Risk Appetite

As documented in the company's Risk Appetite Framework, risk appetite is an expression of the level of risk that PTC is prepared to accept in order to achieve its business objectives. PTC takes a conservative approach to risk and integrates this approach within its business model and strategic objectives.

Risk Management Policies and Objectives

Risk management is the process of identifying the principal risks to PTC in achieving its strategic objectives. Central to this process is establishing appropriate controls designed to manage those risks and to ensure that appropriate monitoring and reporting systems are in place. The Internal Capital Adequacy Assessment Process ("ICAAP") is an integral part of PTC's risk management framework, and is undertaken by PTC on an annual basis. The disclosures in this report support the identification and assessment of risks to PTC which are undertaken as part of the ICAAP review.

The company's Enterprise Risk Management policy reinforces risk management as an integral part of PTC's corporate strategic planning process. PTC has identified the following risks as being the most relevant.

Market Risk

In the normal course of its operations, PTC engages in transactions that give rise to market risk. Market risk is the risk that changes in market price, such as interest rates, and credit spreads, will affect the fair value of future cash flows of PTC's financial instruments. PTC uses the interest rate risk management below to minimize its market risk exposure on its mortgage, investment, deposit, MBS, and CMB portfolios.

PTC does not engage in market trading activities or speculative investments.

Interest Rate Risk

Interest rate risk arises from the risk of loss resulting from changes in interest rates or in the volatility of interest rates that may adversely affect future profitability or the fair values of financial instruments.

Within PTC's operations, changes in interest rates and spreads may affect the interest rate margin realized between asset and liability re-pricing schedules.

PTC has implemented risk management methods to mitigate and control these market risks to which it is exposed, by using both the gap reporting measurement and the duration method of calculation. In addition to these two key measurements, PTC actively monitors interest rate movement and trends, and prepares cash flow analysis. The company also measures the impact over a one year period, the rate shock measurement, to determine the actual dollar impact on earnings within the timeframe.

As at December 31, 2014, the estimated impact on income of a 1% decrease in interest rates would have resulted in a loss of $1.3 million (December 31, 2013: $2.4 million). Alternatively, if interest rates were to rise by 1%, estimated increase in income would have been $2.9 million (December 31, 2013: $4.5 million).

PTC hedges the interest rate risk on its securitized assets and liabilities through the use of swaps. Hedge strategies aim to take into account interest rate exposures arising from interest rate movements.

Credit Risk

Credit Risk is the risk of financial loss resulting from the failure of PTC's customers and counterparties to honour or perform fully the terms of a loan or contract. A component of credit risk is concentration risk, which arises where there is a concentration of exposures within the same category, whether it is geographical location, product type, industry sector, or counterparty type.

Within PTC's operations, credit risk arises primarily from mortgage loans to customers and from investments of liquid assets as part of PTC's treasury operations.

PTC maintains lending policies that place conservative limits on loan to value ratios and geographical and single borrower concentrations. Relevant earnings and cash flow factors are also considered. Extensive use of CMHC insurance is utilized for the bulk of PTC's loan portfolio. With respect to PTC's treasury operations, investment policies are in place that permits only investment in highly rated or government backed investments and in prudent concentrations.

PTC uses standard collateral instruments or has specific documentation drawn up by external legal counsel, and where applicable, security interests are registered. The use of collateral management systems ensure that the collateral has been properly taken, registered, and stored.

In order to rely on the valuation of collateral assets, PTC has developed comprehensive rules surrounding acceptable types of valuations, including approved lists of qualified appraisers who may value an asset and the frequency of re-valuations.

Further mitigants relative to credit risk include the company's maintenance of individual provisions for credit loss, as well as a collective provision to cover credit losses which have been incurred but have not yet been specifically identified. Collective general allowances are maintained in accordance with guidance received from OSFI. The company compares both general and specific credit loss provisions on a quarterly basis in order to effectively manage, assess, and control credit risk. Based on the quarterly results, the company formulates estimates regarding default probability in order to learn from loss experience with a view toward diminishing future loan losses.

Facilities where a contractual payment has not been met or the customer is outside of contractual arrangements are deemed past due. Past due facilities include those operating in excess of approved arrangements or where scheduled repayments are outstanding but do not include impaired assets.

A loan is recognized as being impaired when the company determines there is objective evidence it is no longer reasonably assured of the timely collection of the full amount of principal and interest. As a matter of practice, an uninsured loan is reviewed for impairment when it is in legal action or more than three months in arrears. Impairment is construed when the underlying asset security would not be sufficient to recover the full outstanding amounts of principal, interest and recovery costs, or there is an occurrence of a loss event that will materially affect the related future cash flows. In this instance, a provision is recorded for the difference between the asset's carrying amount and the present value of the estimated future cash flows.

The credit risk associated with PTC's card portfolios, comprised of prepaid and secured cards, is minimal as PTC does not provide any additional credit in excess of amounts provided by customers as security deposits.

The following table provides an analysis of past due and impaired loans by type of mortgage asset *(reported in Thousands of Canadian dollars)*.

				As at December 31, 2014
	Multi-family & Residential Mortgages $	**CMHC Insured Securitized Mortgages $**	**Other Mortgages $**	**Total $**
Past due but not impaired[1]				
31 – 60 days	340	4,052	1,490	5,882
61 – 90 days	-	-	-	-
Over 90 days CMHC Insured	15,556	-	-	15,556
	15,896	4,052	1,490	21,438
Impaired mortgage receivable[1]	366	-	2,172	2,538
Loan loss provision				
Collective general	779	592	412	1,783
Specific	-	-	859	859
	779	592	1,271	2,642

				As at December 31, 2013
	Multi-family & Residential Mortgages $	**CMHC Insured Securitized Mortgages $**	**Other Mortgages $**	**Total $**
Past due but not impaired[1]				
31 – 60 days	-	2,371	-	2,371
61 – 90 days	-	-	-	-
Over 90 days CMHC Insured	14,885	6,898	-	21,783
	14,885	9,269	-	24,154
Impaired mortgage receivable[1]	1,951	-	5,157	7,108
Loan loss provision				
Collective general	979	1,276	-	2,255
Specific	97	-	800	897
	1,076	1,276	800	3,152

[1] Amounts relate to the overall mortgage balances, not the amount in arrears.

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.

PTC is an active issuer and servicing agent in the MBS program and is an issuer and servicing agent to Canada Housing Trust under the CMB program. As issuer, the company generates mortgage products that are CMHC insured and then arranges for the pooling of such mortgages into MBS that also carry a Government of Canada guarantee. The company, as servicing agent, collects mortgage payments monthly and then distributes principal amounts collected and interest payable on the security.

PTC has securitized its own originated CMHC Mortgages in order to manage its credit risk position, to improve regulatory capital ratios, and to generate liquidity for the balance sheet.

Through the program, the Company issues securities backed by single family and multi-family residential mortgage loans that are insured against borrowers' default. Once the mortgage loans are securitized, the Company assigns underlying mortgages and/or related securities to CMHC. As an issuer of MBS, PTC is responsible for advancing all scheduled principal and interest payments to CMHC, irrespective of whether or not the amounts have been collected on the underlying transferred mortgages, and then recovers these amounts from the borrower.

The sale of mortgages under the above programs does not lead to derecognition of the mortgages under accounting standards, as PTC retains the prepayment and interest rate risk associated with the mortgages, which represents substantially all the risk and rewards associated with the transferred assets. The transferred mortgages continue to be recognized on the consolidated balance sheet as residential mortgage loans. Cash proceeds from the transfer are treated as secured borrowings and included in deposits on the consolidated balance sheet.

The following is the Company's net positions on its securitized assets and liabilities:

	2014 **$**	**2013** **$**
Fair value of securitized mortgage receivables, including replacement assets	1,370,203	2,747,138
Fair value of securitization liabilities	1,370,438	2,726,612
Net positions[2]	(235)	20,526

[2] The Company utilizes a service bureau to perform fair market valuations of our assets and liabilities on an annual basis and performs discounted cash flow models to value the retained interests of securitization activities on a quarterly basis.

The following table provides an analysis of the securitized mortgage receivables *(reported in Thousands of Canadian dollars)*:

	Dec 31, 2014 $	Dec 31 2013 $
Securitized mortgages	1,251,037	2,400,175
Accrued interest	2,645	8,327
	1,253,682	2,408,502
Cash and Investments	111,975	302,948
Balance	1,365,657	2,711,450

The following table provides an analysis of the securitization liabilities *(reported in Thousands of Canadian dollars)*:

	Dec 31, 2014 $	Dec 31, 2013 $
Securitization liabilities	1,346,646	2,674,037
Accrued interest	7,699	18,081
Balance	1,354,345	2,692,118

PTC ensures that the credit and funding risks on underlying assets are addressed in accordance with the respective risks discussion within this policy. PTC also minimizes counterparty risk by ensuring it enters securitization transactions with only Canadian Schedule 1 banks. Reinvestment risk on NHA CMB securitization principal amounts is minimized by investing in highly rated or government backed investments. As a result of International Financial Reporting Standards rules, PTC has notably reduced the level of securitization over recent years.

Periodically, PTC sells insured residential mortgage loans and securitizes insured multi-unit residential closed mortgage loans to third parties. Under these programs, the company does not retain prepayment risk and interest rate risk related to the transferred mortgages. Additionally, there are minimal expected credit losses on the sold mortgages, as the mortgages are insured against default. These transactions therefore result in derecognition of the financial liabilities as third parties assume legal responsibility for the liabilities.

PTC generated a total of $1.41 billion (2013: $1.11 billion) in closed multi-unit residential pools for the period ending December 31, 2014. The corresponding gains and losses on the pools are recognized upon securitization of the mortgages.

<u>Derivatives</u>

PTC enters into over-the-counter derivative agreements as part of the requirement for participating in the Canada Mortgage Bond Program, in the form of pass-through swaps. As a result of entering into the pass-through swaps, which are not accounted for as derivatives, PTC enters into accreting swaps to hedge against interest rate exposures arising from the interest rate movements. PTC also enters into future contracts to secure interest rates on future sale of Mortgage Backed Securities.

The fair value of derivative instruments has been included as part of the "Swaps and held for trading financial instruments mark to market" as set out below *(reported in Thousands of Canadian dollars)*:

	Dec 31, 2014 $	Dec 31, 2013 $
Present value of pre-2004 MBS, whole-loan sales and derecognized MBS/CMB pool securities – net interest spread	75,505	38,917
Swaps and HFT financial instruments mark to market	2,276	3,761
	77,781	42,678

Liquidity Risk

Liquidity risk is the risk that PTC has insufficient cash balances to settle liabilities and commitments as they come due. The company's three main funding needs relate to (1) the participation the NHA MBS/CMB programs, (2) the funding of conventional mortgage activities, and (3) the repayment of deposit balances.

Liquidity risks are managed in accordance with limits and asset quality measures which are set out in the Liquidity Management Policy. Cash flow forecasts are the principal management information control used to monitor liquidity on a daily basis. PTC has a contingency funding plan in place and performs specific scenario stress testing analyses on a semi-annual basis.

The Board of Directors has appointed an Assets and Liabilities Committee (ALCO), comprising members of senior management, chaired by the Chief Executive Officer. The ALCO is responsible for overseeing the management of market, liquidity, and funding risks.

Commencing in 2015, additional monitoring measures comes from the introduction of the liquidity adequacy standard. OSFI requires financial institutions to monitor and report on several comprehensive liquidity requirements. The company will be required to report on the liquidity coverage ratio (LCR) which ensures adequate levels of high quality liquid assets are held to meet liquidity needs within a 30 day time frame. In addition, the reporting of the existing net cumulative cash flow will be expanded to align with the LCR. In upcoming years, the net stable funding ratio, liquidity monitoring tools and intraday liquidity monitoring tools will complete the package of the liquidity adequacy standard requirements. The company will ensure that the monitoring and administration of liquidity will be well managed within these evolving OSFI guidelines.

Regulatory Compliance Risk

Regulatory compliance risk is the risk to earnings from the Company's potential non-compliance with laws, rules, regulations, prescribed practices, or ethical standards in any jurisdiction in which it operates.

PTC's Corporate Governance Committee provides oversight and establishes policies to ensure the company operates within the laws and regulations mandatory for financial institutions. Senior management promotes regulatory compliance and embeds it within the corporate culture through formal procedures that adhere to the established policies.

On a monthly basis, along with internal non-compliance matters, the President and Chief Operations Officer monitors and reports regulatory non-compliance issues through the Legislative Compliance Certificate where the remedial actions required and expected dates of resolution are identified. Once the non-compliance issues are identified, senior management takes immediate action to remedy the issues to avoid significant financial impact to the Company.

Strategic Risk

Strategic risk is the risk to earnings arising from the PTC's potential inability to implement appropriate business plans and strategies, make decisions, allocated resources, or adapt to changes in its business environment.

The company mitigates this risk by maintaining a diversification of business segments in accordance with market trends. In the past few years, the Company has broadened its business operations from conventional lending to expanding the securitization programs and the card services operations. The risk to earnings as a result of one business segment would be compensated by the other two business segments.

Business plans and strategies are developed and implemented by management and approved by the Board of Directors to ensure corporate objectives are met within acceptable levels of risk.

Capital Management

PTC's principal goal in managing its capital is to maintain capital ratios beyond regulatory requirements, by establishing more stringent internal targets than those set out by OSFI and the Basel III requirements, while still ensuring that capital is efficiently allocated to business operations appropriate to their risk levels.

Capital is managed on a consolidated basis under principles which observe the risks associated with business operations. PTC calculates and reports regulatory capital ratios as prescribed under Pillar 1 of the Basel III framework and has adopted the Standardized Approach to credit risk and the Basic Indicator approach to operational risk. PTC has complied with all internal and regulatory capital requirements.

PTC's capital requirement for operational risk based on December 31, 2014 figures is $10.9 million (December 31, 2013: $10.6 million). The company's capital resources based on December 31, 2014 figures are summarized in Appendix I attached to this policy. The table contained in Appendix I is prepared on the modified disclosure template required by OSFI defined in the BCBS Disclosure Rules.

Regulatory Capital Structure

Total capital comprises three tiers. Tier 1 (core capital) comprises the highest quality capital elements. Tier 2 elements (supplementary capital) includes items such as reserves, provisions and hybrid instruments. Tier 3 capital is used only to meet market risk capital requirements.

Within PTC, the total regulatory capital comprises:

- Tier 1 (core capital) comprises only Common shareholders' equity (defined as common shares, contributed surplus, and retained earnings).
- Tier 2 (supplementary capital) comprises the collective allowance for credit losses.
- Tier 3 is nil.

Total regulatory capital is calculated and reported under IFRS.

Regulatory ratios are calculated by dividing Tier 1 and total capital by risk-weighted assets ("RWA").

The calculation of RWA is determined by OSFI-prescribed rules relating to on balance sheet and off balance sheet exposures. In addition, OSFI formally establishes risk-based capital targets for deposit-taking institutions.

In addition to the Tier 1 and Total capital ratio, PTC is required to ensure that its assets-to-capital multiple (ACM), which is calculated by dividing gross-adjusted assets by total capital, does not exceed the maximum level prescribed by OSFI.

Commencing in 2015, OSFI will replace the assets to capital multiple with the Basel III leverage ratio. Similar to the ACM, the leverage ratio is a measure to ensure financial institutions bear adequate levels of capital compared to total assets. However, the capital measure used in leverage ratio is limited to all-in Tier 1 capital and the exposure measure is expanded to include off-balance sheet commitments and derivative exposures.

Capital Adequacy

PTC uses the annual ICAAP and risk assessment to determine the material risks that PTC faces, to ensure that sufficient quality and quantity of capital is available to conduct its business activities. The ICAAP analysis is conducted by senior management and presented to the company's Board of Directors for review and approval, together with the annual budget and capital plan. As part of the ICAAP analysis, stress test scenarios are conducted to predict how PTC will perform under stressed conditions and determine if additional capital cushion or other mitigating actions are required. The resulting report serves to keep the Board informed of the ongoing assessment of risks facing the company, the manner in which the company mitigates those risks, and the adequacy of the company's capital, should the material risks identified materialize. The ICAAP report is a fundamental part of PTC's procedures to ensure it has adequate capital and controls to support the company's current and future activities.

As noted above, the Board of Directors has approved specific policies that seek to manage and mitigate credit, interest rate, liquidity, and securities portfolio risks. These policies are implemented and monitored monthly by management and quarterly by the Board.

In addition to overseeing the management of market, liquidity, and funding risks, members of the ALCO advise on capital utilization and the composition and sourcing of adequate capital. The Audit Committee, consisting solely of non-executive directors, considers the adequacy of internal controls and compliance with regulatory and other requirements. It is the Audit Committee to which the findings of Internal Audit are reported.

A summary of PTC's ICAAP is submitted annually to OSFI for review and is periodically audited by PTC's internal audit team.

Remuneration

PTC 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 will therefore be made on a limited basis in terms of any public or company-wide circulation. However, all necessary information will be made available to OSFI upon request.

Given the size and relatively non-complex nature of the company, PTC has employed proportionality, but where appropriate, has not assimilated various provisions of the Financial Stability Board's Principles for Sound Compensation Practices within its business model.

Due to the relatively small size and lack of complexity of the company, PTC is not required to appoint an independent Board remuneration committee. Current processes will be kept under review and should the need arise, PTC will consider amending this arrangement to provide greater independent review.

The company's Board of Directors is responsible for overseeing compliance with PTC's processes on remuneration. The determination of remuneration processes is based on guidance provided by OSFI and subject to input and review by PTC's control functions and Human Resources department.

PTC endeavours to ensure that its remuneration policy is consistent within its business strategy, the company's current financial condition, and long term growth. PTC'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. Guaranteed incentives do not form part of any compensation package and all incentive systems are non-contractual. Maximum thresholds on fixed and variable remuneration, as well as shareholder compensation, have been established and are monitored by OSFI.

The relatively small size and lack of complexity of PTC's business lines are such that PTC does not operate separate "business areas" and the following aggregate remuneration data should be read in that context. During 2014, the total amount of all salaries, bonuses and long term incentives and other remuneration for key management and employees whose actions have a material impact on the risk exposure of the company was $7.1 million (2013: $9.6 million). We do not break down this total between key management and "other risk takers", as all employees who hold material risk positions are considered to be in key management roles.

E&OE

APPENDIX I – BASEL III COMMON DISCLOSURES AS AT DECEMBER 31, 2014

	Modified Capital Disclosure Template	All-in (000's)
	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	26,884
2	Retained earnings	137,125
3	Accumulated other comprehensive income (and other reserves)	
4	*Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)*	
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**	164,009
Common Equity Tier 1 capital: regulatory adjustments		
28	Total regulatory adjustments to Common Equity Tier 1	(172)
29	**Common Equity Tier 1 capital (CET1)**	163,837
	Additional Tier 1 capital: instruments	
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*	
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*	
36	**Additional Tier 1 capital before regulatory adjustments**	
	Additional Tier 1 capital: regulatory adjustments	
43	Total regulatory adjustments applied to Additional Tier 1 under Basel 3	
44	Additional Tier 1 capital (AT1)	
45	Tier 1 capital (T1 = CET1 + AT1)	163,837
	Tier 2 capital: instruments and allowances	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	
47	Directly issued and capital instruments subject to phase out from Tier 2	
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*	
50	Collective allowances	1,783
51	**Tier 2 capital before regulatory adjustments**	1,783
	Tier 2 capital: regulatory adjustments	
57	Total regulatory adjustments applied to Tier 2 under Basel 3	
58	Tier 2 capital (T2)	1,783
59	Total capital (TC = T1 + T2)	165,620
60	Total risk weighted assets	937,583
60a	Common Equity Tier 1 (CET1) Capital RWA	
60b	Tier 1 Capital RWA	
60c	Total Capital RWA	
	Capital ratios	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	17.47%
62	Tier 1 (as a percentage of risk weighted assets)	17.47%
63	Total capital (as a percentage of risk weighted assets)	17.66%
	OSFI all-in target	
69	Common Equity Tier 1 capital all-in target ratio	7.0%
70	Tier 1 capital all-in target ratio	8.5%
71	Total capital all-in target ratio	10.5%
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)	
80	*Current cap on CET1 instruments subject to phase out arrangements*	
81	*Amount excluded from CET1 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 due to cap (excess over cap after redemptions and maturities)*	
84	*Current cap on T2 instruments subject to phase out arrangements*	
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	

Memo Items:

-Line items 28, 43, & 57 aggregate all regulatory adjustments for that particular tier of capital.

-From Q3 2014 to Q4 2018, institutions phasing in the CVA capital charge using Option #1 as per OSFI's August 2013 letter will be required to disclose rows 60a, 60b, and 60c, instead of row 60.