Pillar 3 and Leverage Ratio Quarterly Supplemental Disclosures of

ALTERNA BANK

September 30, 2023

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Overview

CS Alterna Bank, a member of the Canada Deposit Insurance Corporation ("CDIC"), operates under the name "Alterna Bank". It is a Schedule 1 Bank and received letters patent from the Minister of Finance of Canada to operate under the Bank Act on October 2, 2000.

The registered office address of Alterna Bank is 319 McRae, Ottawa, Ontario, K1Z 0B9. The nature of Alterna Bank's operations and principal activities are the provision of deposit taking facilities and loan facilities to the clients of the bank.

Effective April 1, 2023, CS Alterna Bank has adopted the Revised Basel III reforms in accordance with OSFI's new Small and Medium-Sized Deposit-Taking Institutions (SMSBs) Capital and Liquidity Requirements Guidline (SMSB Capital and Liquidity Guideline) and Pillar 3 Disclosures Requirements for SMSBs Guideline[1]. CS Alterna Bank is categorized as Category II SMSB under SMSBs Capital and Liquidity Requirements Guideline. The disclosures produced within this document have been prepared in accordance with minimum disclosure requirements for Category II SMSBs listed in the Pillar 3 Disclosure Requirements for SMSBs Guideline.

Unless stated otherwise, full qualitative disclosures are provided annually, at the fiscal year end. Periods since Q2 2023 reflect the Revised Basel III reforms. The information in this disclosures are unaudited and should be read in conjunction with 2022 financial statements.

Capital Structure

OSFI's regulatory capital guidelines under Basel III reforms allow for two tiers of capital. Tier 1 capital includes CET1 capital comprised of common shares, reserves, retained earnings and accumulated other comprehensive income and Additional Tier 1 ("AT1") capital which includes qualifying additional tier 1 capital, non-cumulative perpetual preferred shares and regulatory adjustments. Tier 2 capital contains preferred shares, subordinated debt and regulatory adjustments. Alterna Bank's Tier 1 capital includes common shares, retained earnings, and accumulated other comprehensive income. Tier 2 capital includes stage 1 and stage 2 loan allowances.

The risk-based regulatory capital ratios are calculated by dividing CET1, Tier 1 and Total capital by Risk-Weighted Assets ("RWA"). The calculation of RWA is determined by the OSFI-prescribed rules relating to on-balance sheet and off-balance sheet exposures and includes amounts for operational risk exposure associated with the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. In addition, OSFI formally establishes risk-based capital minimums for deposit-taking institutions. These minimums are currently at CET1 capital ratio of 7.0%, Tier 1 capital ratio of 8.5% and a Total capital ratio of 10.5%.

The table below provides a breakdown of the constitute elements of Alterna Bank's capital for the quarter ended September 30, 2023 and June 30, 2023.

[1] Changes to Capital, Leverage, and Liquidity Requirements, and related Disclosures (osfi-bsif.gc.ca)

Modified CC1 – Composition of capital for SMSBs

(000s)		Q3 2023	Q2 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	57,000	57,000
2	Retained earnings	29,384	28,182
3	Accumulated other comprehensive income (and other reserves)	(3,433)	(3,457)
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**	82,951	81,725
	Common Equity Tier 1 capital: regulatory adjustments		
28	**Total regulatory adjustments to Common Equity Tier 1**	(2,312)	(2,415)
29	**Common Equity Tier 1 capital (CET1)**	80,639	79,310
	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 (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**	-	-
	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)**	80,639	79,310
	Tier 2 capital: instruments and provisions		
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	112	56
51	**Tier 2 capital before regulatory adjustments**	112	56
	Tier 2 capital: regulatory adjustments		
57	**Total regulatory adjustments to Tier 2 capital**	-	-
58	**Tier 2 capital (T2)**	112	56
59	**Total capital (TC = T1 + T2)**	80,751	79,366
60	**Total risk-weighted assets**	169,377	171,745
60a	**Credit Valuation Adjustment (CVA) Risk-weighted Assets (RWA)**	550	488
	Capital ratios		
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	47.6%	46.2%
62	Tier 1 (as a percentage of risk-weighted assets)	47.6%	46.2%
63	Total capital (as a percentage of risk-weighted assets)	47.7%	46.2%
	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%

Alterna Bank is in compliance with the imposed regulatory capital requirements.

Leverage Ratio

The Leverage Ratio ("LR") is calculated by dividing Tier I capital by Total Exposure. The regulatory minimum LR requirement is 3.0% (2022 – 3.0%). The table below provides a detailed breakdown of the components of the leverage ratio denominator, as well as information on the actual leverage ratio, minimum requirements and buffers.

LR2: Leverage ratio common disclosure

(000s)		Q3 2023	Q2 2023
On-balance sheet exposures			
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	1,125,088	1,132,237
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)	(2,312)	(2,415)
5	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 to 4)**	1,122,776	1,129,822
Derivative exposures			
6	Replacement cost associated with all derivative transactions	8,649	9,153
7	Add-on amounts for potential future exposure associated with all derivative transactions	428	634
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)**	9,078	9,787
Securities financing transaction exposures			
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)**	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	36,711	33,793
18	(Adjustments for conversion to credit equivalent amounts)	(30,916)	(28,890)
19	**Off-balance sheet items (sum of lines 17 and 18)**	5,795	4,903
Capital and total exposures			
20	**Tier 1 capital**	80,639	79,310
21	**Total Exposures (sum of lines 5, 11, 16 and 19)**	1,137,649	1,144,512
Leverage ratio			
22	**Basel III leverage ratio**	7.09%	6.93%