Basel III Pillar 3 and Leverage Ratio Quarterly Supplemental Disclosures of

ALTERNA BANK

March 31, 2021

1. Scope of Application

CS Alterna Bank, a member of the Canada Deposit Insurance Corporation ("CDIC"), and 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..

The Pillar 3 and Leverage Ratio Disclosures are unaudited and provide additional summary descriptions and quantitative financial information. The disclosures produced within this document have been prepared in accordance with minimum disclosure requirements as interpreted by the Office of the Superintendent of Financial Institutions, Canada ('OSFI') and established under the OSFI Advisory on Pillar 3 Disclosure Requirements (April 2017), Capital Disclosure Requirements (May 2018) and COVID-19 Measures – FAQs for Federally Regulated Deposit-Taking Institutions (April 2020).

In response to COVID-19, OSFI introduced transitional arrangements for Expected Credit Loss (ECL) provisioning that are available under the Basel Framework. The transitional arrangements have resulted in an adjustment such that a portion of allowances that would otherwise be included in Tier 2 capital to instead be included in Common Equity Tier 1 ("CET1") capital. The adjustment to CET1 capital will need to be measured each quarter as the increase in Stage 1 and Stage 2 allowances relative to the baseline level. For Alterna Bank, the baseline level is the amount of Stage 1 and Stage 2 allowances as at the quarter ending December 31, 2019. This increased amount is adjusted for tax effects and subject to a scaling factor that will decrease over time. The scaling factor has been set at 70% in fiscal 2020, 50% in fiscal 2021 and 25% in fiscal 2022. Note 2 – Capital Structure and Note 3 – Leverage Ratio have disclosed the impacts of these transitional arrangements.

2. Capital Structure

OSFI's regulatory capital guidelines under Basel III 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, other comprehensive income and ECL transitional adjustment. 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 a CET1 capital ratio of 7.0%, a Tier 1 capital ratio of 8.5% and a Total capital ratio of 10.5%.

The table below provides the modified minimum composition of capital disclosures under Basel III as required by OSFI for the quarter ended March 31, 2021 and December 31, 2020. Line 29a, 45a, 59a, 61a, 62a, and 63a are inserted to disclose CET1, Tier 1 Capital, Total Capital ratios had the transitional arrangement for ECL provisioning not been applied.

TABLE 1: **CAPITAL STRUCTURE**

(thousands of Canadian dollars, except as noted)

		March 31, 2021	December 31, 2020
Transitional 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	**23,801**	23,251
3	Accumulated other comprehensive income (and other reserves)	**124**	843
6	**Common Equity Tier 1 capital before regulatory adjustments**	**80,925**	81,094
Common Equity Tier 1 capital: regulatory adjustments			
26	Other deductions or regulatory adjustments to CET1 as determined by OSFI	**31**	47
28	Total regulatory adjustments to Common Equity Tier 1	**31**	47
29	**Common Equity Tier 1 capital (CET1)**	**80,956**	81,141
29a	**Common Equity Tier 1 Capital (CET1) with transitional arrangements for ECL provisioning not applied**	**80,925**	81,094
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)**	**80,956**	81,141
45a	**Tier 1 Capital with transitional arrangements for ECL provisioning not applied**	**80,925**	81,094
Tier 2 capital: instruments and allowances			
50	Collective allowances	**82**	72
51	**Tier 2 capital before regulatory adjustments**	**82**	72
Tier 2 capital: regulatory adjustments			
57	**Total regulatory adjustments to Tier 2 capital**	**-**	-
58	**Tier 2 capital (T2)**	**82**	72
59	**Total capital (TC = T1 + T2)**	**81,038**	81,213
59a	**Total Capital with transitional arrangements for ECL provisioning not applied**	**81,038**	81,213
60	**Total risk-weighted assets**	**204,393**	195,758
Capital ratios			
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	**39.61%**	41.45%
61a	CET1 Ratio with transitional arrangements for ECL provisioning not applied	**39.59%**	41.43%
62	Tier 1 (as percentage of risk-weighted assets)	**39.61%**	41.45%
62a	Tier 1 Capital Ratio with transitional arrangements for ECL provisioning not applied	**39.59%**	41.43%
63	Total capital (as percentage of risk-weighted assets)	**39.65%**	41.49%
63a	Total Capital Ratio with transitional arrangements for ECL provisioning not applied	**39.65%**	41.49%
OSFI target			
69	Common Equity Tier 1 capital all-in target ratio	**7.00%**	7.00%
70	Tier 1 capital all-in target ratio	**8.50%**	8.50%
71	Total capital all-in target ratio	**10.50%**	10.50%

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

3. Leverage Ratio

The Leverage Ratio ("LR") is calculated by dividing Tier I capital by Total Exposure. The regulatory minimum LR requirement for Alterna Bank is 3.0% (2020 – 3.0%). The calculation of Total Exposure is determined by OSFI-prescribed rules and includes on-balance sheet derivatives and other off-balance sheet exposures. The following table summarizes the Bank's all-in Basel III Pillar 3 Leverage Ratio as at March 31, 2021 and December 31, 2020 as required by OSFI in connection with the 2014 Basel Committee on Banking Supervision Basel III Leverage Ratio Framework and Disclosure Requirement ("BCBS LR Framework"). Line 20a and 22a are inserted to disclose the Leverage Ratio had the transitional arrangement for ECL provisioning not been applied.

TABLE 2: **LEVERAGE RATIO FRAMEWORK**

(thousands of Canadian dollars, except as noted)

	Item	March 31, 2021	December 31, 2020
	On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	**1,165,412**	1,086,274
5	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 to 4)**	**1,165,412**	1,086,274
	Derivative exposures		
6	Replacement cost associated with all derivative transactions	**2,101**	920
7	Add-on amounts for potential future exposure associated with all derivative transactions	**2,880**	918
11	**Total derivative exposures (sum of lines 6 to 10)**	**4,981**	1,838
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	**109,648**	54,360
18	(Adjustments for conversion to credit equivalent amounts)	**(90,456)**	(46,238)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**19,192**	8,122
	Capital and Total Exposures		
20	**Tier 1 capital**	**80,956**	81,141
20a	**Tier 1 Capital with transitional arrangements for ECL provisioning not applied**	**80,925**	81,094
21	**Total Exposures (sum of lines 5, 11, 16 and 19)**	**1,189,585**	1,096,234
	Leverage Ratios		
22	**Basel III leverage ratio**	**6.81%**	7.40%
22a	**Leverage ratio with transitional arrangements for ECL provisioning not applied**	**6.80%**	7.40%