Basel III Pillar 3 and Leverage Ratio Quarterly Supplemental Disclosures of

ALTERNA BANK

March 31, 2020

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 regulatory adjustments for deferred tax assets and credit valuation adjustments (CVA), which are deducted from CET1 capital and 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, 2020 and December 31, 2019. 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.