Basel III Pillar 3 and Leverage Ratio Quarterly Supplemental Disclosures of

ALTERNA BANK

September 30, 2019

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 in Ontario and Quebec.

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 (November 2007), related OSFI guidelines and letters and Basel III leverage ratio framework and disclosure requirements (September 2014).

2. Capital Structure

OSFI's regulatory capital guidelines under Basel III allow for two tiers of capital. Tier 1 capital includes Common Equity Tier 1 ("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 which 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 which 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 the modified minimum composition of capital disclosures under Basel III as required by OSFI for the quarter ended September 30, 2019 and June 30, 2019.

TABLE 1: **CAPITAL STRUCTURE**

(thousands of Canadian dollars, except as noted)

	September 30, 2019	June 30, 2019
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	**54,000**	48,500
2 Retained earnings	**17,761**	17,481
3 Accumulated other comprehensive income (and other reserves)	**1,637**	612
4 **Common Equity Tier 1 capital before regulatory adjustments**	**73,398**	66,593
Common Equity Tier 1 capital: regulatory adjustments		
5 Total regulatory adjustments to Common Equity Tier 1	-	-
6 **Common Equity Tier 1 capital (CET1)**	**73,398**	66,593
Additional Tier 1 capital: regulatory adjustments		
7 **Tier 1 capital (T1 = CET1 + AT1)**	**73,398**	66,593
Tier 2 capital: instruments and allowances		
8 Eligible Stage 1 and Stage 2 allowances	**37**	39
9 **Tier 2 capital before regulatory adjustments**	**37**	39
Tier 2 capital: regulatory adjustments		
10 **Tier 2 capital (T2)**	**37**	39
11 **Total capital (TC = T1 + T2)**	**73,435**	66,632
12 **Total risk-weighted assets**	**207,458**	186,343
Capital ratios		
13 Common Equity Tier 1 (as percentage of risk-weighted assets)	**35.4%**	35.7%
14 Tier 1 (as percentage of risk-weighted assets)	**35.4%**	35.7%
15 Total capital (as percentage of risk-weighted assets)	**35.4%**	35.8%
OSFI all-in target		
16 Common Equity Tier 1 capital all-in target ratio	**7.0%**	7.0%
17 Tier 1 capital all-in target ratio	**8.5%**	8.5%
18 Total capital all-in target ratio	**10.5%**	10.5%

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 and the regulatory minimum LR requirement for Alterna Bank is 3.0% (2018 – 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 September 30, 2019 and June 30, 2019 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"):

TABLE 2: **LEVERAGE RATIO FRAMEWORK**

(thousands of Canadian dollars, except as noted)

Item	September 30, 2019	June 30, 2019
On-balance sheet exposures		
1 On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	**953,162**	876,290
2 (Asset amounts deducted in determining Basel III "all-in" Tier 1 capital)	-	-
3 **Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**953,162**	876,290
Derivative exposures		
4 Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	**325**	41
5 Add-on amounts for PFE associated with all derivative transactions	**209**	340
6 **Total derivative exposures (sum of lines 4 and 5)**	**533**	380
Other off-balance sheet exposures		
7 Off-balance sheet exposure at gross notional amount	**26,101**	28,760
8 (Adjustments for conversion to credit equivalent amounts)	**(23,393)**	(25,586)
9 **Off-balance sheet items (sum of lines 7 and 8)**	**2,708**	3,174
Capital and Total Exposures		
10 **Tier 1 capital**	**73,398**	66,594
11 **Total Exposures (sum of lines 3, 6 and 9)**	**956,403**	879,844
Leverage Ratios		
12 **Basel III leverage ratio**	**7.7%**	7.6%