

Basel III Pillar 3 and Leverage Ratio Quarterly Supplemental Disclosures of

ALTERNA BANK

September 30, 2018

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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 only has 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.

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, 2018 and June 30, 2018.

TABLE 1		CAPITAL STRUCTURE	
<i>(thousands of Canadian dollars, except as noted)</i>			
Item	September 30, 2018	June 30, 2018	
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	\$ 38,500	\$ 35,000
2	Retained earnings	16,380	16,000
3	Accumulated other comprehensive income (and other reserves)	(355)	618
6	Common Equity Tier 1 capital before regulatory adjustments	54,525	51,618
Common Equity Tier 1 capital: regulatory adjustments			
28	Total regulatory adjustments to Common Equity Tier 1	-	(40)
29	Common Equity Tier 1 Capital (CET1)	54,525	51,578
Additional Tier 1 capital: regulatory adjustments			
45	Tier 1 capital (T1 = CET1 + AT1)	54,525	51,578
Tier 2 capital: regulatory adjustments			
58	Tier 2 capital (T2)	-	-
59	Total capital (TC = T1 + T2)	\$ 54,525	\$ 51,578
60	Total risk-weighted assets	\$ 177,245	\$ 189,957
60a	Common Equity Tier 1 (CET1) Capital RWA	\$ 177,244	\$ 189,942
60b	Tier 1 Capital RWA	\$ 177,245	\$ 189,950
60c	Total Capital RWA	\$ 177,245	\$ 189,957

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Capital ratios			
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	30.8 %	27.2 %
62	Tier 1 (as percentage of risk-weighted assets)	30.8	27.2
63	Total capital (as percentage of risk-weighted assets)	30.8	27.2
OSFI target			
69	Common Equity Tier 1 capital 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.

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% (2017 – 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, 2018 and June 30, 2018 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	
<i>(thousands of Canadian dollars, except as noted)</i>			
	Item	September 30, 2018	June 30, 2018
On-balance sheet exposures			
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	\$ 833,168	\$ 801,552
2	(Asset amounts deducted in determining Basel III “all-in” Tier 1 capital)	-	(40)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	833,168	801,512
Derivatives exposures			
4	Replacement cost associated with all derivative transactions (i.e., net of eligible cash variation margin)	86	839
5	Add-on amounts for PFE associated with all derivative transactions	199	193
11	Total derivative exposures (sum of lines 4 to 10)	285	1,032
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	31,704	31,704
18	(Adjustments for conversion to credit equivalent amounts)	(28,852)	(27,945)
19	Off-balance sheet items (sum of lines 17 and 18)	\$ 2,852	\$ 3,759
Capital and Total Exposures			
20	Tier 1 Capital	\$ 54,525	\$ 51,577
21	Total Exposures (sum of lines 3, 11, 16 and 19)	836,305	806,303
Leverage Ratios			
22	Basel III leverage ratio	6.5 %	6.4 %