

*Basel III Pillar 3 and Leverage Ratio disclosures of*

**ALTERNA BANK**

**December 31, 2024**

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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 letter patents from the Minister of Finance of Canada to operate under the Bank Act on October 2, 2000. Alterna Bank is regulated by the Office of the Superintendent of Financial Institutions (“OSFI”).

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 Alterna Bank across Canada. Basel III is the third in a series of international banking reforms known as the Basel Accords, aimed at improving the regulation, supervision, and risk management of the banking sector. It is composed of three pillars:

- Pillar 1: Addresses capital and liquidity adequacy and provides minimum requirements
- Pillar 2: Sets up supervisory monitoring and review standards
- Pillar 3: Prescribes public disclosures to promote market discipline

Effective April 1, 2023, 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 Guideline (SMSB Capital and Liquidity Guideline) and Pillar 3 Disclosures Requirements for SMSBs Guideline. 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 (2024)<sup>1</sup>. Additional information can be found at OSFI’s financial data website: [Financial data for banks - Office of the Superintendent of Financial Institutions \(osfi-bsif.gc.ca\)](https://www.osfi-bsif.gc.ca/en/financial-data-for-banks)

The information in this disclosures are unaudited and should be read in conjunction with 2024 financial statements. The Pillar 3 and Leverage Ratio Disclosures have been prepared in accordance with regulatory capital adequacy concepts and rules, rather than in accordance with International Financial Reporting Standards (“IFRS”). Therefore, some information in the Pillar 3 and Leverage Ratio Disclosures are not directly comparable with the financial information in the Alterna Bank’s audited financial statements for 2024.

### Capital Management

Alterna Bank’s Capital Management Policy governs Alterna Bank’s capital adequacy with respect to regulatory requirements and is consistent with Alterna Bank’s risk appetite framework and strategic objectives. Alterna Bank’s Internal Capital Adequacy Assessment Process (ICAAP) is integral to Alterna Bank’s capital planning activities and assesses Alterna Bank’s capital plan under stressed conditions to ensure appropriate capital adequacy of Alterna Bank. Regulatory capital requirements addressed by the policy include the leverage ratio and risk-based capital ratios (Common Equity Tier 1 (“CET1”), Tier 1 and Total Capital). The Capital Management Policy is reviewed annually by the Board.

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

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<sup>1</sup> Pillar 3 Disclosure Guideline for Small and Medium-Sized Deposit-Taking Institutions (SMSBs) - Guideline (2024) - Office of the Superintendent of Financial Institutions ([osfi-bsif.gc.ca](https://www.osfi-bsif.gc.ca/en/financial-data-for-banks))

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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 calculated using the Simplified Standardized Approach (SSA). 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 key metrics for the quarter ended Q4 2024 and preceding four quarter-ends.

TABLE 1 - KM1: Key metrics (at consolidated group level)						
(000s)		Q4 2024	Q3 2024	Q2 2024	Q1 2024	Q4 2023
	<b>Available capital (amounts)</b>					
1	Common Equity Tier 1 (CET1)	88,139	86,867	85,508	84,438	83,399
2	Tier 1	88,139	86,867	85,508	84,438	83,399
3	Total capital	88,163	86,875	85,516	84,447	83,506
	<b>Risk-weighted assets (amounts)</b>					
4	Total risk-weighted assets (RWA)	148,278	152,769	163,550	160,304	163,666
4a	Total risk-weighted assets (pre-floor)	148,278	152,769	163,550	160,304	163,666
	<b>Risk-based capital ratios as a percentage of RWA</b>					
5	CET1 ratio (%)	59.44%	56.86%	52.28%	52.67%	50.96%
5a	CET1 ratio (%) (pre-floor ratio)	59.44%	56.86%	52.28%	52.67%	50.96%
6	Tier 1 ratio (%)	59.44%	56.86%	52.28%	52.67%	50.96%
6a	Tier 1 ratio (%) (pre-floor ratio)	59.44%	56.86%	52.28%	52.67%	50.96%
7	Total capital ratio (%)	59.46%	56.87%	52.29%	52.68%	51.02%
7a	Total capital ratio (%) (pre-floor ratio)	59.46%	56.87%	52.29%	52.68%	51.02%
	<b>Additional CET1 buffer requirements as a percentage of RWA</b>					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	-	-	-	-	-
10	Bank G-SIB and/or D-SIB additional requirements (%) [Not applicable for SMSBs]					
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.50%	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	54.94%	52.36%	47.78%	48.17%	46.46%
	<b>Basel III Leverage ratio</b>					
13	Total Basel III leverage ratio exposure measure	1,023,326	1,049,468	1,110,398	1,086,052	1,114,941
14	Basel III leverage ratio (row 2 / row 13)	8.61%	8.28%	7.70%	7.77%	7.48%

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The modified minimum composition of capital disclosures are shown in the table below.

TABLE 2 - Modified CC1 : Composition of capital for SMSBs		
		2024
(000s)		Amounts
	<b>Common Equity Tier 1 capital: instruments and reserves</b>	
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	57,000
2	Retained earnings	34,105
3	Accumulated other comprehensive income (and other reserves)	(934)
4	<i>Directly issued capital subject to phase out from CET1 (only applicable to Federal Credit Unions)</i>	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
6	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	90,171
	<b>Common Equity Tier 1 capital: regulatory adjustments</b>	
28	<b>Total regulatory adjustments to Common Equity Tier 1</b>	(2,032)
29	<b>Common Equity Tier 1 capital (CET1)</b>	88,139
	<b>Additional Tier 1 capital: instruments</b>	
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	<i>Directly issued capital instruments subject to phase out from Additional Tier 1 (applicable only to Federal Credit Unions)</i>	
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	<i>of which: instruments issued by subsidiaries subject to phase out (applicable only to Federal Credit Unions)</i>	
36	<b>Additional Tier 1 capital before regulatory adjustments</b>	-
	<b>Additional Tier 1 capital: regulatory adjustments</b>	
43	<b>Total regulatory adjustments to additional Tier 1 capital</b>	-
44	<b>Additional Tier 1 capital (AT1)</b>	-
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	88,139
	<b>Tier 2 capital: instruments and provisions</b>	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	
47	<i>Directly issued capital instruments subject to phase out from Tier 2 (applicable only to Federal Credit Unions)</i>	
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	<i>of which: instruments issued by subsidiaries subject to phase out (applicable only to Federal Credit Unions)</i>	
50	Collective allowances	24
51	<b>Tier 2 capital before regulatory adjustments</b>	24
	<b>Tier 2 capital: regulatory adjustments</b>	
57	<b>Total regulatory adjustments to Tier 2 capital</b>	-
58	<b>Tier 2 capital (T2)</b>	24
59	<b>Total capital (TC = T1 + T2)</b>	88,163
60	<b>Total risk-weighted assets</b>	148,278
	<b>Capital ratios</b>	
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	59.44%
62	Tier 1 (as a percentage of risk-weighted assets)	59.44%
63	Total capital (as a percentage of risk-weighted assets)	59.46%
	<b>OSFI target</b>	
69	Common Equity Tier 1 target ratio	7.0%
70	Tier 1 capital target ratio	8.5%
71	Total capital target ratio	10.5%

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The leverage ratio is defined as Tier 1 capital divided by the total exposure measure. Federally regulated deposit-taking institutions are expected to have Basel III leverage ratio that meet or exceed 3% at all times. The following table summarizes the Bank's Leverage Ratio for the quarter ended Q4 2024 and the preceding quarter-end.

TABLE 3 - LR2: Leverage ratio common disclosure			
(000s)		Q4 2024	Q3 2024
<b>On-balance sheet exposures</b>			
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	1,016,119	1,042,449
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)	(2,032)	(2,070)
5	<b>Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 to 4)</b>	1,014,087	1,040,379
<b>Derivative exposures</b>			
6	Replacement cost associated with all derivative transactions	4,754	5,510
7	Add-on amounts for potential future exposure associated with all derivative transactions	64	105
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	<b>Total derivative exposures (sum of lines 6 to 10)</b>	4,819	5,615
<b>Securities financing transaction exposures</b>			
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	<b>Total securities financing transaction exposures (sum of lines 12 to 15)</b>	-	-
<b>Other off-balance sheet exposures</b>			
17	Off-balance sheet exposure at gross notional amount	34,210	30,435
18	(Adjustments for conversion to credit equivalent amounts)	(29,790)	(26,961)
19	<b>Off-balance sheet items (sum of lines 17 and 18)</b>	4,420	3,474
<b>Capital and total exposures</b>			
20	<b>Tier 1 capital</b>	88,139	86,867
21	<b>Total Exposures (sum of lines 5, 11, 16 and 19)</b>	1,023,326	1,049,468
<b>Leverage ratio</b>			
22	<b>Basel III leverage ratio</b>	8.61%	8.28%

## Enterprise Risk Management

The Board of Directors ("the Board") and/or the Risk, Audit & Finance Committee ("RAFC") provide direction and oversight to ensure that Alterna Bank's risks are effectively managed and compliant with the Board-approved Risk Appetite Framework ("RAF").

The RAF expresses the risks which Alterna Bank is willing to accept in order to fulfill its business objectives, deliver on its strategic plan and achieve desired financial returns, and outlines its main considerations in risk-taking, mitigation and avoidance. It also sets parameters for the Enterprise Risk Management Framework ("ERMF") which is structured to meet the risk management expectations of the Board and sets the tone and objectives of risk management throughout the three lines of defence at Alterna Bank as dictated by the RAF.

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The ERMF is the means by which the Board articulates their expectations for the mitigation and management of existing and potential risks. It also establishes the risk management expectations across the key risk areas and the aggregate risk.

- The ERMF sets out Alterna Bank's overall risk management approach, risk governance, and risk identification, assessment, mitigation, monitoring and reporting relative to the Board-approved RAF.
- The ERMF outlines how Alterna Bank considers risk in its business and strategic planning.

Alterna Bank's ERMF implements the Three Lines of Defence model which is fundamental to the governance operating structure. The responsibilities between the three lines of defence are as follows:

- First Line of Defence: Business Risk Owners;
- Second Line of Defence: Risk Management and the Oversight Functions; and,
- Third Line of Defence: Internal Audit.

**(a) Credit Risk**

Credit risk is the risk of loss incurred if a counterparty fails to meet its financial commitments to Alterna Bank, and is initiated through lending, investing and financial hedging operations.

It reflects the potential for financial loss if the assets, as currently reflected on the balance sheet, become impaired and not fully recoverable as a result of the occurrence of a specific event or because of the unique terms or conditions.

In particular, this can result from a significant drop in the property value and/or customers choosing not to repay their obligations, mortgages or loans for an extended period of time.

Credit risk is limited for mortgages secured by residential properties as 91% (2023 – 90%) of these mortgages are insured by mortgage insurance companies. Alterna Bank also monitors the concentration risk from commercial loans by setting maximum exposure limits for total loan balances for each industry. The carrying amount of financial assets recorded in the financial statements net of impairment losses, represents Alterna Bank's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The lifetime expected credit losses ("ECL") on the credit-impaired loans as of December 31, 2024, were approximately \$nil (2023 – \$nil) or 0.00% (2023 – 0.00%) of total gross credit exposure at December 31, 2024. Therefore, no additional disclosures related to industry and geographic areas of these loans have been presented. For the accounting policy on the measurement of the ECL, refer to Note 2(e) of Alterna Bank's 2024 audited financial statements.

For qualitative disclosures with respect to definitions of past due and impaired loans, description of approaches followed for assessment of individual and collective allowances, and discussion of the credit risk management policy, refer to the following notes to Alterna Bank's 2024 audited financial statements:

<b>Notes:</b>	<b>Reference</b>
Impairment of financial assets	2(e)
Nature and extent of risks arising from financial instruments	4

**(b) Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate

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because of changes in market interest rates. Alterna Bank's net income is exposed to interest rate risk because of the mismatches in maturities and interest rate types (fixed vs. variable) of its financial assets and financial liabilities.

Alterna Bank's interest rate risk management objective is to maximize interest margin while complying with the approved interest rate risk policy limits. Alterna Bank uses derivatives such as interest rate swaps to manage interest rate risk.

Interest rate risk is managed in accordance with the Structural Risk Management Policy. This policy is reviewed and approved annually by the Board. Alterna Bank reports the interest rate risk against policy limits to the Asset Liability Committee ("ALCO") on a monthly basis and the Board on a minimum quarterly basis.

Alterna Bank's maximum tolerable exposure to short-term interest rate risk over 12 months is restricted to 5% of forecasted net interest income with a 95% confidence level. Its maximum tolerable exposure to interest rate risk on the entire balance sheets is restricted to a 4.5% decline in the market value of equity to mitigate long-term interest rate risk.

For qualitative and quantitative disclosures relating to interest rate risk management objective, management techniques, exposure to interest rate risk and sensitivity analysis, refer to the following notes to Alterna Bank's 2024 audited financial statements:

Notes:	Reference
Interest Rate Risk	4(b)(i)

**(c) Liquidity Risk**

Liquidity risk is the risk that Alterna Bank will encounter difficulty in meeting obligations associated with financial liabilities. Alterna Bank is exposed to liquidity risk due to the mismatch in financial asset and financial liability maturities and the uncertainty of daily cash inflows and outflows.

Liquidity risk is managed in accordance with the Liquidity Management and Funding Policy. The policy is reviewed and approved annually by the Board. Alterna Bank manages liquidity risk by monitoring cash flows and cash forecasts, maintaining a pool of high quality liquid financial assets, maintaining a stable base of core and term deposits, monitoring concentration limits on single sources of deposits, and diversifying funding sources. Alterna Bank reports the liquidity risk against policy limits to ALCO on a monthly basis and to the Board on a minimum quarterly basis.

For qualitative and quantitative disclosures relating to liquidity risk management and maturity profile of financial liabilities, exposure to interest rate risk and sensitivity analysis, refer to the following notes to Alterna Bank's 2024 audited financial statements:

Notes:	Reference
Liquidity Risk	4(c)

**(d) Operational Risk**

Operational Risk is the risk of loss resulting from people, inadequate infrastructure, inadequate or failed internal processes and systems, or from external events including, but not limited to, outsourced processes,

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third party risk management and portfolio management. It includes legal risk but excludes strategic and reputational risk. Hence, this includes loss resulting from people and events, including external or internal fraud, non-adherence to internal procedures/values/objectives, or unethical behaviour.

Effective operational risk management involves the identification, assessment, monitoring, reporting and management of operational risks. It also incorporates operational resilience which places an emphasis on the continued end-to-end performance of Alterna's critical operations through business disruptions. Operational Risk Management is an important element of the ERMF.

#### (e) Counterparty Credit Risk

All of Alterna Bank's derivative contracts are Over-the-Counter ("OTC") forward contracts that are privately negotiated between Alterna Bank and the counterparty to the contract.

For qualitative and quantitative disclosures relating to fair value methodology, hierarchical classification, credit risk mitigation and maturities of derivative portfolio, refer to the following notes to Alterna Bank's 2024 audited financial statements:

Notes:	Reference
Derivatives and Hedging	2(h)
Fair Value of Financial Instruments	18
Nature and Extent of Risks arising from Financial Instruments	4
Derivative Financial Instruments	19

#### (f) Credit Valuation Adjustment Risk

Credit Valuation Adjustment (CVA) risk is defined as the risk of losses arising from changing CVA values in response to changes in counterparty credit spreads and market risk factors that drive prices of derivative transactions and securitites financing transactions (SFTs).

Alterna Bank, as category II SMSBs, is not designated institution by OSFI as having material CVA exposures from SFTs, therefore there is no CVA capital charge for SFT exposures.

According to Chapter 8 of the OSFI Capital Adequacy Requirements (CAR) (2024) – Guideline on CVA Risk, Alterna Bank has assessed its eligibility and concluded that the reduced version of the basic approach for CVA (BA-CVA) best suits for capital allocation. The capital requirements are displayed as follows:

TABLE 4 - CVA1: The reduced basic approach for CVA (BA-CVA)		
(000s)	Components	Capital requirements under BA-CVA
1	Aggregation of systematic components of CVA risk	78,444
2	Aggregation of idiosyncratic components of CVA risk	235,331
3	<b>Total</b>	<b>11.51</b>

#### (g) Market Risk

Alterna Bank is not an internationally active institution and is not required by OSFI to calculate market risk for regulatory purpose, as stated in Capital Adequacy Requirements (CAR) 2024, Chapter 9, paragraph 2 & 3.