Pillar 3 and Leverage Ratio Quarterly Supplemental Disclosures of

ALTERNA BANK

March 31, 2025

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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 (2025)[1]. 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)

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 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

[1] Pillar 3 Disclosure Guideline for Small and Medium-Sized Deposit-Taking Institutions (SMSBs) - Guideline (2025) - Office of the Superintendent of Financial Institutions (osfi-bsif.gc.ca)

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 Q1 2025 and preceding four quarter-ends.

TABLE 1 - KM1: Key metrics (at consolidated group level)

		Q1 2025	Q4 2024	Q3 2024	Q2 2024	Q1 2024
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	88,981	88,139	86,867	85,508	84,438
2	Tier 1	88,981	88,139	86,867	85,508	84,438
3	Total capital	88,995	88,163	86,875	85,516	84,447
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	144,208	148,278	152,769	163,550	160,304
4a	Total risk-weighted assets (pre-floor)	144,208	148,278	152,769	163,550	160,304
	Risk-based capital ratios as a percentage of RWA					
5	CET1 ratio (%)	61.70%	59.44%	56.86%	52.28%	52.67%
5a	CET1 ratio (%) (pre-floor ratio)	61.70%	59.44%	56.86%	52.28%	52.67%
6	Tier 1 ratio (%)	61.70%	59.44%	56.86%	52.28%	52.67%
6a	Tier 1 ratio (%) (pre-floor ratio)	61.70%	59.44%	56.86%	52.28%	52.67%
7	Total capital ratio (%)	61.71%	59.46%	56.87%	52.29%	52.68%
7a	Total capital ratio (%) (pre-floor ratio)	61.71%	59.46%	56.87%	52.29%	52.68%
	Additional CET1 buffer requirements as a percentage of RWA					
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 (%)	57.20%	54.94%	52.36%	47.78%	48.17%
	Basel III Leverage ratio					
13	Total Basel III leverage ratio exposure measure	1,023,050	1,023,326	1,049,468	1,110,398	1,086,052
14	Basel III leverage ratio (row 2 / row 13)	8.70%	8.61%	8.28%	7.70%	7.77%

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

TABLE 2 - Modified CC1 : Composition of capital for SMSBs

(000s)		Q1 2025 Amounts
	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
2	Retained earnings	34,590
3	Accumulated other comprehensive income (and other reserves)	(593)
4	*Directly issued capital subject to phase out from CET1 (only applicable to Federal Credit Unions)*	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
6	**Common Equity Tier 1 capital before regulatory adjustments**	90,997
	Common Equity Tier 1 capital: regulatory adjustments	
28	**Total regulatory adjustments to Common Equity Tier 1**	(2,016)
29	**Common Equity Tier 1 capital (CET1)**	88,981
	Additional Tier 1 capital: instruments	
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	*Directly issued capital instruments subject to phase out from Additional Tier 1 (applicable only to Federal Credit Unions)*	
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	*of which: instruments issued by subsidiaries subject to phase out (applicable only to Federal Credit Unions)*	
36	**Additional Tier 1 capital before regulatory adjustments**	-
	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)**	88,981
	Tier 2 capital: instruments and provisions	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	
47	*Directly issued capital instruments subject to phase out from Tier 2 (applicable only to Federal Credit Unions)*	
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	*of which: instruments issued by subsidiaries subject to phase out (applicable only to Federal Credit Unions)*	
50	Collective allowances	14
51	**Tier 2 capital before regulatory adjustments**	14
	Tier 2 capital: regulatory adjustments	
57	**Total regulatory adjustments to Tier 2 capital**	-
58	**Tier 2 capital (T2)**	14
59	**Total capital (TC = T1 + T2)**	88,995
60	**Total risk-weighted assets**	144,208
	Capital ratios	
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	61.70%
62	Tier 1 (as a percentage of risk-weighted assets)	61.70%
63	Total capital (as a percentage of risk-weighted assets)	61.71%
	OSFI target	
69	Common Equity Tier 1 target ratio	7.0%
70	Tier 1 capital target ratio	8.5%
71	Total capital target ratio	10.5%

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 Q1 2025 and the preceding quarter-end.

TABLE 3 - LR2: Leverage ratio common disclosure

(000s)		Q1 2025	Q4 2024
On-balance sheet exposures			
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	1,016,149	1,016,119
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)	(2,016)	(2,032)
5	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 to 4)**	1,014,133	1,014,087
Derivative exposures			
6	Replacement cost associated with all derivative transactions	4,715	4,754
7	Add-on amounts for potential future exposure associated with all derivative transactions	430	64
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	**Total derivative exposures (sum of lines 6 to 10)**	5,145	4,819
Securities financing transaction exposures			
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	**Total securities financing transaction exposures (sum of lines 12 to 15)**	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	32,232	34,210
18	(Adjustments for conversion to credit equivalent amounts)	(28,460)	(29,790)
19	**Off-balance sheet items (sum of lines 17 and 18)**	3,772	4,420
Capital and total exposures			
20	**Tier 1 capital**	88,981	88,139
21	**Total Exposures (sum of lines 5, 11, 16 and 19)**	1,023,050	1,023,326
Leverage ratio			
22	**Basel III leverage ratio**	8.70%	8.61%

Credit Valuation Adjustment Risk

According to Chapter 8 of the OSFI Capital Adequacy Requirements 2024 (CAR)– 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 as of Q1 2025 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	2,453,925	
2	Aggregation of idiosyncratic components of CVA risk	7,361,775	
3	**Total**		64.40

Market Risk

Alterna Bank is not an internationally active institution and, as such, is not required by OSFI to calculate or disclose market risk information for regulatory purposes, in accordance with Chapter 9 of the CAR.