Consolidated Financial Statements of

ALTERNA SAVINGS

December 31, 2019

Independent auditor's report

To the Members of Alterna Savings and Credit Union Limited

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Alterna Savings and Credit Union Limited and its subsidiaries (together, Alterna Savings) as at December 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

Alterna Savings's consolidated financial statements comprise:

- the consolidated balance sheet as at December 31, 2019;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in members' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of Alterna Savings in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing Alterna Savings's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Alterna Savings or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Alterna Savings's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Alterna Savings's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Alterna Savings's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Alterna Savings to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Alterna Savings to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Ontario
March 13, 2020

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ALTERNA SAVINGS
Consolidated Balance Sheets (in thousands of dollars)
December 31, 2019

As at	Note	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents	27	**537,175**	$ 164,259
Investments	6	**418,770**	425,677
Loans and advances	4, 5	**5,049,673**	4,924,913
Property and equipment	7	**38,722**	15,834
Intangible assets	8	**11,140**	11,746
Derivative financial instruments	23	**6,171**	3,039
Income tax receivable		**2,367**	-
Deferred income tax asset	21	**-**	729
Other assets	9	**81,438**	62,120
		$ 6,145,456	$ 5,608,317
LIABILITIES AND MEMBERS' EQUITY			
Liabilities:			
Deposits	10	**$ 4,601,798**	$ 4,312,690
Borrowings	11	**$ 303,671**	252,010
Mortgage securitization liabilities	12	**$ 771,713**	669,701
Derivative financial instruments	23	**$ 4,095**	7,092
Income tax payable		**$ -**	2,418
Deferred income tax liability	21	**$ 338**	-
Other liabilities	13	**$ 70,418**	41,287
Membership shares	16	**1,804**	1,919
		$ 5,753,837	$ 5,287,117
Members' equity:			
Special shares	16	**187,233**	134,440
Contributed surplus		**37,739**	34,522
Retained earnings		**168,207**	156,732
Accumulated other comprehensive loss	15	**(1,560)**	(4,494)
		391,619	321,200
		$ 6,145,456	$ 5,608,317

On behalf of the Board:

Norman Ayoub
Director

Richard J. Neville, FCPA, FCA
Director

(See accompanying notes to the consolidated financial statements)

ALTERNA SAVINGS
Consolidated Statements of Income (in thousands of dollars)
December 31, 2019

For the years ended	Note	**31 December 2019**	**31 December 2018**
Interest income	17	**170,789**	$ 150,121
Investment income	18	**15,483**	9,240
		186,272	159,361
Interest expense	17	**95,573**	68,735
Net interest income		**90,699**	90,626
Loan costs		**1,737**	2,827
Net interest income after loan costs		**88,962**	87,799
Commissions		**8,426**	7,171
Service charges		**5,788**	5,605
Foreign exchange		**4,258**	8,195
Securitization income	19	**2,878**	2,840
Other		**1,094**	1,395
Net (losses) gains on derivative financial instruments		**(863)**	133
Other income		**21,581**	25,339
Net interest and other income		**110,543**	113,138
Salaries and benefits		**44,243**	43,090
Administration		**22,361**	19,595
Occupancy		**10,683**	9,763
Data processing		**8,900**	8,703
Marketing and community relations		**3,999**	3,157
Operating expenses		**90,186**	84,308
Income before income taxes		**20,357**	28,830
Provision for income taxes	21	**3,849**	5,758
Net income		**$ 16,508**	$ 23,072

(See accompanying notes to the consolidated financial statements)

ALTERNA SAVINGS
Consolidated Statements of Comprehensive Income (in thousands of dollars)
December 31, 2019

For the years ended	31 December 2019	31 December 2018
Net income	$ 16,508	$ 23,072
Other comprehensive income (loss)		
Other comprehensive income (loss) to be reclassified to income in subsequent periods:		
Investments in debt instruments measured at fair value through other comprehensive income:		
Net unrealized gains on debt instruments measured at fair value through other comprehensive income [(1)]	2,235	102
Cash flow hedges:		
Changes arising during the year [(2)]	551	(305)
Add: Reclassification adjustments for gains (losses) included in the income statement [(3)]	142	(95)
Net gain (loss) on cash flow hedges	693	(400)
Net other comprehensive income (loss) to be reclassified to income in subsequent periods	2,928	(298)
Other comprehensive income not to be reclassified to income in subsequent periods:		
Defined benefit plan - actuarial gains [(4)]	6	17
Net other comprehensive income not to be reclassified to income in subsequent periods	6	17
Other comprehensive income (loss)	2,934	(281)
Comprehensive income	$ 19,442	$ 22,791

(1) Net of income tax expense of $546 (2018 - expense of $23).
(2) Net of income tax expense of $145 (2018 - recovery of $71).
(3) Net of income tax expense of $33 (2018 - recovery of $23).
(4) Net of income tax expense of $5 (2018 - expense of $nil).

(See accompanying notes to the consolidated financial statements)

ALTERNA SAVINGS
Consolidated Statements of Changes in Members' Equity (in thousands of dollars)
December 31, 2019

For the years ended	Note	**31 December 2019**	**31 December 2018**
Special shares:			
Balance, beginning of year		**$ 134,440**	$ 133,052
Net shares issued		**52,793**	1,388
Balance, end of year		**187,233**	134,440
Contributed surplus:			
Balance, beginning of year		**34,522**	30,297
Arising on business combination	25	**3,217**	4,225
Balance, end of year		**37,739**	34,522
Retained earnings:			
Balance, beginning of year		**156,732**	136,925
Impact of adopting IFRS 9 at January 1, 2018		**-**	918
Balance, beginning of year, as restated		**156,732**	137,843
Net income		**16,508**	23,072
Dividend on special shares		**(5,033)**	(4,183)
Balance, end of year		**168,207**	156,732
Accumulated other comprehensive loss, net of tax:			
Balance, beginning of year		**(4,494)**	(4,213)
Other comprehensive income (loss)		**2,934**	(281)
Balance, end of year		**(1,560)**	(4,494)
Members' equity		**$ 391,619**	$ 321,200

(See accompanying notes to the consolidated financial statement

ALTERNA SAVINGS
Consolidated Statements of Cash Flows (in thousands of dollars)
December 31, 2019

For the years ended		31 December 2019		31 December 2018
Operating activities:				
Net income	**$**	**16,508**	$	23,072
Proceeds from the securitization of mortgages		**875,620**		612,340
Payment of mortgage securitization liabilities		**(776,257)**		(342,011)
Add (deduct) non-cash items:				
Provision for credit losses		**1,243**		2,417
Depreciation and amortization of				
Property and equipment		**5,926**		2,980
Intangible assets		**1,974**		2,157
Deferred charges		**5,875**		3,013
Loss (gain) on				
Disposal of property and equipment		**65**		158
Disposal of intangible assets		**-**		1
Sale of investments		**(57)**		(10)
(Gain) loss on sale and securitization of loans		**(9,874)**		441
Decrease (increase) in assets				
Fair value of investments		**(538)**		187
Fair value of loans held for securitization		**(7,612)**		(5,555)
Interest receivable		**(1,780)**		(3,191)
Deferred income taxes		**729**		102
Loans		**(121,312)**		(984,595)
Assets relating to derivative financial instruments		**(2,143)**		8,902
Increase (decrease) in liabilities				
Interest payable		**4,790**		5,442
Deposits		**289,108**		633,301
Liabilities relating to derivative financial instruments		**(2,997)**		2,280
Deferred income taxes		**338**		-
Non-cash net assets acquired through business combinations		**165**		443
Other items, net		**(14,184)**		(17,239)
Cash provided by (used in) operating activities	**$**	**265,587**	$	(55,365)
Investing activities:				
Proceeds from maturity and sale of investments		**256,789**		210,743
Purchase of investments		**(242,638)**		(260,061)
Acquisition of property and equipment		**(4,882)**		(2,268)
Acquisition of intangible assets		**(1,368)**		(937)
Cash acquired through business combinations		**3,052**		3,782
Cash provided by (used in) investing activities	**$**	**10,953**	$	(48,741)
Financing activities:				
Net increase (decrease) in				
Membership shares		**(115)**		147
Special shares		**52,793**		1,388
Borrowings		**51,661**		(24,538)
Dividend on special shares		**(5,033)**		(4,183)
Principal payments on lease liabilities		**(2,930)**		(218)
Cash provided by (used in) financing activities	**$**	**96,376**	$	(27,404)
Net increase (decrease) in cash and cash equivalents during the year		**372,916**		(131,510)
Cash and cash equivalents, beginning of year		**164,259**		295,769
Cash and cash equivalents, end of year	**$**	**537,175**	$	164,259
Supplemental information:				
Interest paid	**$**	**90,783**	$	63,293
Interest received	**$**	**172,569**	$	153,312
Dividend received	**$**	**534**	$	557
Income taxes paid	**$**	**7,034**	$	3,652
Additions to property and equipment due to transition of IFRS 16	**$**	**23,997**	$	-

(See accompanying notes to the consolidated financial statements)

1. CORPORATE INFORMATION

Alterna Savings is a credit union incorporated and domiciled in Ontario, Canada under *The Credit Unions and Caisses Populaires Act* (Ontario) (the "Act") as Alterna Savings and Credit Union Limited and is a member of Central 1 Credit Union ("Central 1"). Alterna Savings is regulated by and its qualifying member deposits are insured by the Financial Services Regulatory Authority ("FSRA").

The registered office address of Alterna Savings is 319 McRae Avenue, Ottawa, Ontario, K1Z 0B9. The nature of Alterna Savings' operations and principal activities are the provision of deposit taking facilities and loan facilities to the members of the credit union in Ontario and Quebec.

The consolidated financial statements for the year ended December 31, 2019 were authorized for issue in accordance with a resolution of the Board of Directors on March 13, 2020. The Board of Directors has the power to amend the consolidated financial statements after issuance only in the case of a discovery of an error.

2. SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The consolidated financial statements of Alterna Savings have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Alterna Savings presents its consolidated balance sheets broadly in order of liquidity.

Financial assets and liabilities are offset, with the net amount reported in the consolidated balance sheets, only if there is a currently enforceable legal right to set off the recognized amounts and there is an intention to settle on a net basis or to realize an asset and settle the liability simultaneously. In all other situations, they are presented gross.

BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, except for fair value through other comprehensive income investments ("FVOCI"), derivative financial instruments and financial assets and financial liabilities held at fair value through profit or loss ("FVTPL"), which have been measured at fair value.

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from management's estimates. The significant accounting policies are as follows:

a) CHANGES IN ACCOUNTING POLICIES

i) IFRS 16, *Leases* ("IFRS 16")

Alterna Savings has adopted IFRS 16 with a date of transition of January 1, 2019, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the consolidated financial statements under International Accounting Standards ("IAS") 17, Leases ("IAS 17").

Alterna Savings has applied IFRS 16 using the modified retrospective approach. Under this approach, the right-of-use asset is measured at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments recognized immediately before the date of initial application of January 1, 2019. For the modified retrospective approach, the comparative information has not been restated and continues to be reported under IAS 17. Consequently, the note disclosure requirements for IFRS 16 have only been applied to the current period and the comparative period note disclosures repeat those disclosures made in the prior year. See note 14.

Set out below in note 3 are disclosures relating to the impact of the adoption of IFRS 16. Further details of the specific IFRS 16 accounting policies applied in the current period (as well as the previous IAS 17 accounting policies applied in the comparative period) are described in more detail in section (p) below.

b) BASIS OF CONSOLIDATION

The consolidated financial statements incorporate on a fully consolidated basis the financial statements of Alterna Savings (the parent entity) and its wholly owned subsidiary CS Alterna Bank ("Alterna Bank"). The consolidated financial statements include the accounts and financial performance of Alterna Bank. All significant intercompany balances and transactions have been eliminated on consolidation.

c) BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method of accounting. For every business combination, an acquirer is identified, which is the entity that obtains control of the other entity. The effective date of the business combination is the date the acquirer gains control of the acquired entity. The identifiable assets (including previously unrecognized intangible assets) and identifiable liabilities (including contingent liabilities but excluding future restructuring costs) of the acquired entity are measured at fair value. The excess of the consideration transferred over the fair values of the identifiable net assets is recognized as goodwill; any shortfall is recognized as contributed surplus.

Acquisition-related costs are expensed as incurred and are included in operating expenses.

d) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, cash on deposit with other financial institutions, cheques and other items in transit, and marketable securities with original maturities at acquisition of 90 days or less. Interest income on deposits with other financial institutions as well as marketable securities is included in investment income.

e) DETERMINATION OF FAIR VALUE

The fair value for financial instruments traded in active markets at the consolidated balance sheet dates is based on their quoted market price without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model using the best estimate of the most appropriate model assumptions.

f) FINANCIAL INSTRUMENTS

i) Initial recognition and measurement

Financial instruments are recognized when Alterna Savings becomes party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognized on the date when Alterna Savings commits to purchase or sell the asset.

At initial recognition, financial instruments are measured at fair value plus or minus transaction costs that are incremental and directly attributable to the acquisition or issue of the financial instrument, such as fees and commissions (for financial instruments not at FVTPL). For financial instruments carried at FVTPL, transaction costs are expensed in income.

Amortized cost and effective interest rate

The amortized cost is the amount at which the financial instrument is measured at initial recognition minus principal repayment, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount (which is amortized cost before any loss allowance) of the financial asset or to the amortized cost of the financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate such as origination fees.

When Alterna Savings revises the estimates of future cash flows, the carrying amount of the financial instrument is adjusted to reflect the new estimate discounted using the original effective interest rate. Changes are recognized in income.

Trade date accounting is used for all financial instruments.

ii) Classification

Financial assets

Under IFRS 9, *Financial Instruments* ("IFRS 9"), Alterna Savings classifies its financial assets in the following measurement categories:

- FVTPL;
- FVOCI; or
- Amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

A debt instrument security is measured at FVOCI only if it meets both of the following conditions and is not designated at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amounts outstanding.

On initial recognition of an equity instrument security that is not held for trading, Alterna Savings may irrevocably elect to present subsequent changes in FVOCI. This election is made on an investment-by-investment basis. When this election is used, fair value gains and losses are recognized in other comprehensive income (loss) ("OCI") and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when Alterna Savings' right to receive payments is established. See note 6 for details on which investments Alterna Savings has taken the election on.

All other financial assets are classified as measured at FVTPL. In addition, on initial recognition, Alterna Savings may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.
The classification requirements for debt and equity instrument securities are described below:

Business model: the business model reflects how Alterna Savings manages the assets in order to generate cash flows. That is, whether the objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows from the sale of assets. If neither of these is applicable, then they are classified at FVTPL. Factors considered in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management, and how risks are assessed and managed.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, Alterna Savings assesses whether the financial asset's cash flows represent solely payment of principal and interest (the 'SPPI' test). In making this assessment, Alterna Savings considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified as FVTPL. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after Alterna Savings changed its business model for managing financial assets.

Financial Liabilities

Financial liabilities are classified and subsequently measured at amortized cost, except for derivative liabilities which are classified at FVTPL, where gains and losses realized on disposition and unrealized gains and losses from market fluctuations are both included in net gains on derivative financial instruments.

g) IMPAIRMENT OF FINANCIAL ASSETS

Alterna Savings recognizes loss allowances for expected credit losses ("ECL") on the following financial instruments that are not measured at FVTPL:

- Loans and investments at amortized cost;
- Financial assets that are debt instrument securities; and
- Loan commitments and guarantees.

No loss allowance is recognized on equity instrument securities.

Alterna Savings measures loss allowances at an amount equal to the lifetime ECL except for the following, for which they are measured as 12-month ECL:

- Debt instrument securities that are determined to have low credit risk at the reporting date; or
- Financial assets at amortized cost on which credit risk has not increased significantly since their initial recognition.

All debt instrument securities and investments at amortized cost were measured with 12-month ECL as they were determined to have a low credit risk as at the reporting date.

The credit risk on debt instrument securities and investments at amortized cost are considered low if there is:

- A low risk of default;
- The borrower has a strong capacity to meet contractual cash flow obligations; and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the counterparty to fulfil its contractual cash flow obligations.

Alterna also considers debt instrument securities to have a low credit risk when its creditworthiness is judged to be 'investment grade', which Alterna broadly defines as equivalent to a credit rating of A or higher.

The 12-month ECL are the portion of ECL that result from default events on a financial instrument that are expected within the 12 months after the reporting date.

No loss allowance has been recognized on Alterna Savings' investments at amortized cost as the contractual cash flow obligations are guaranteed from a Crown Corporation of the Government of Canada, which makes the risk of default highly remote.

i) Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that Alterna Savings expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to Alterna Savings if the commitment is drawn down and the cash flows that Alterna Savings expects to receive.

See further discussion in note 5.

ii) Credit-impaired financial assets

At each reporting date, Alterna Savings assesses whether financial assets carried at amortized cost and debt instrument securities carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by Alterna Savings on terms that Alterna Savings would not consider otherwise; or
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

Bad debt written off - When it is considered that there is no realistic prospect of recovery, all efforts have ceased to collect amounts, and all collateral has been realized or transferred to Alterna Savings, the loan and any associated allowance is written off. Subsequent recoveries, if any, are credited to the allowance and recorded in the consolidated statements of income as a component of the loss allowance.

iii) Loans and loan impairment

Reversal of impairment losses – If in a subsequent period the amount of a previously recognized impairment loss decreases, the impairment loss is reversed by reducing the allowance account accordingly. Such reversal is recognized in the consolidated statements of income.

Loan interest on impaired loans – Once a loan is identified as impaired and the carrying amount is reduced by an impairment loss, interest income is recognized on the new carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Transaction costs – Transaction costs are revenues or expenses that are direct and incremental to the establishment of the loan. Transaction costs (e.g., commercial lending application fees, mortgage brokerage and incentive fees, legal fees, appraisal fees, etc.) are deferred and amortized to interest income over the term of the loan using the effective interest rate method. The net unamortized fees are included in the related loan balance.

Loan costs – Loan costs include the loss allowance, bad debt written off and collection costs.

Restructured loans - If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized. The ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; or
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

h) MODIFICATIONS

i) Financial assets

If the terms of a financial asset are modified, Alterna Savings evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (at least 10%), then the contractual rights to the cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, Alterna Savings recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in income. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with the loss allowance. In other cases, it is presented as interest income.

ii) Financial liabilities

Alterna Savings derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in income.

i) DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired; or
- Alterna Savings has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement;
- and either:
    - Alterna Savings has transferred substantially all the risks and rewards of the asset, or
    - Alterna Savings has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When Alterna Savings has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement but has neither transferred substantially all the risks and rewards of the asset nor control of the asset, the asset is recognized to the extent of Alterna Savings' continuing involvement in the asset. In that case, Alterna Savings also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that Alterna Savings has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that Alterna Savings could be required to repay.

ii) Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statements of income.

iii) Mortgage sales

Alterna Savings may from time to time sell a portion of its securitized residential and commercial mortgage loan portfolio to diversify its funding sources and enhance its liquidity position. The related loans are derecognized from the consolidated balance sheets if the transaction meets the derecognition criteria through the transfer of certain risk and rewards to external parties. Gains or losses on these transactions are reported in other income on the consolidated statements of income. On certain transactions Alterna Savings retains substantially all the risks and rewards of the transferred loans. As a result, these loans remain on the consolidated balance sheets and the proceeds received are recognized as a liability in the consolidated balance sheets.

j) DERIVATIVES AND HEDGING

Alterna Savings has elected to continue to apply the hedge accounting requirements of IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”) as permitted by IFRS 9.

All derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value as “derivative financial instruments” on the consolidated balance sheets.

Gains and losses arising from changes in the fair value of a derivative are recognized as they arise in the consolidated statements of income unless the derivative is the hedging instrument in a qualifying hedge (see “hedge accounting” below).

i) Embedded derivatives

Embedded derivatives are separated from non-financial assets. Derivatives embedded in other financial instruments are valued as separate derivatives when their economic characteristics and risks are not considered to be closely related to the host contract. These embedded derivatives are classified as derivative financial instruments and measured at fair value with changes therein recognized in the consolidated statements of income. The only embedded derivatives are the options embedded in Alterna Savings’ indexed term deposits offered to members (note 23(b)) with respect to which the host deposits are carried at amortized cost.

ii) Hedge accounting

Alterna Savings uses derivative financial instruments such as swaps in its management of interest rate exposure and foreign currency forward agreements to manage its foreign exchange risk. Derivative financial instruments are not used for trading or speculative purposes but rather as economic hedges, some of which qualify for hedge accounting. Alterna Savings applies hedge accounting for derivative financial instruments that meet the criteria specified in IAS 39. When hedge accounting is not applied, the change in the fair value of the derivative financial instrument is recognized in income. This includes instruments used for economic hedging purposes that do not meet the requirements for hedge accounting.

Where hedge accounting can be applied, a hedge relationship is designated and formally documented at its inception, outlining the particular risk management objective and strategy, the specific asset, liability or cash flow being hedged, as well as how hedge effectiveness will be assessed. The assessment of the effectiveness of the derivatives that are used in hedging transactions in offsetting changes in cash flows of the hedged items both at the hedge inception and on an ongoing basis must be documented. Ineffectiveness results to the extent that the cumulative change in the fair value of the hedging derivative differs from the cumulative change in the fair value of expected future cash flows of the hedged item. Effectiveness requires a high correlation of changes in cash flows. The amount of ineffectiveness, provided that it is not to the extent to disqualify the entire hedge from hedge accounting, is recognized immediately in income.

iii) Cash flow hedges

Alterna Savings designates cash flow hedges as part of risk management strategies that use derivatives to mitigate its exposure to the changes in cash flows of variable rate instruments. The effective portion of the change in fair value of the derivative instrument is offset through OCI as discussed below until the cash flows being hedged are recognized in income in future accounting periods, at which time the amount that was recognized in OCI is reclassified into income. The ineffective portion of the change in fair value of the hedging derivative is recognized separately in unrealized gains/(losses) on financial instruments immediately as it arises. If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated and any remaining amount in OCI is recognized in income over the remaining term of the hedged item. In the event that the hedged transaction is no longer likely of occurring, the OCI balance is then recognized in the consolidated statements of income.

iv) Fair value hedges

Alterna Savings designates fair value hedges as part of risk management strategies that use derivatives to mitigate its exposure to the changes in a fixed interest rate instrument's fair value caused by changes in interest rates.

In a fair value hedging relationship, the carrying value of the hedged item is adjusted for changes in fair value attributable to the hedged risk and recognized in income. Changes in fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in the fair value of the hedging derivative, which are also recognized in income. If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated and the carrying value of the hedged item is no longer adjusted and the cumulative fair value adjustments to the carrying value of the hedged items are recognized to income over the remaining term of the hedged item.

k) FOREIGN CURRENCY

The consolidated financial statements are presented in Canadian dollars, which is Alterna Savings' functional and reporting currency.

Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the rate of exchange prevailing at the consolidated balance sheet dates; income and expenses are translated at the annual average rate. Foreign currency exchange gains and losses are recognized in other income during the year.

l) PROPERTY AND EQUIPMENT

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. The land is not depreciated. Depreciation is generally recognized using the straight-line method over the estimated useful lives of the assets. The range of estimated useful lives of the assets is as follows:

Buildings	10 to 35 years
Furniture and equipment	5 to 10 years
Computer hardware	3 to 7 years
Leasehold improvements	Term of the lease

Depreciation of property and equipment is included in administration and occupancy expenses. Maintenance and repairs are also charged to administration and occupancy expenses. Gains and losses on disposals are included in other income.

Property and equipment are tested for impairment at least annually and an impairment charge is recorded to the extent the recoverable amount, which is the higher of fair value less costs to sell and value in use, is less than its carrying amount. Value in use is the present value of the future cash flows expected to be derived from the asset. After the recognition of impairment of an asset, the depreciation charge is adjusted in future periods to reflect the asset's revised carrying amount. If impairment is later reversed, the depreciation charge is adjusted prospectively.

Property and equipment are derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in other income in the consolidated statements of income in the year the asset is derecognized.

m) INTANGIBLE ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with a finite life are amortized on a straight-line basis over the estimated useful lives of the assets. Alterna Savings' computer software has been identified as having a finite life and is amortized over 2 to 15 years.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Goodwill arising from business combinations has been identified as having an indefinite life.

Investment tax credits related to the acquisition of computer software are accounted for using the cost reduction approach and are deducted from the cost of the related asset. Investment tax credits are recorded when Alterna Savings has made the qualifying expenditures and there is reasonable assurance that the credits will be realized.

n) EMPLOYEE BENEFIT PLANS

Alterna Savings maintains four pension plans for current employees and retirees, and two post-retirement benefits programs, which provide certain post-employment healthcare benefits. The pension plans consist of two Defined Benefit Plans ("DB"), a Supplementary Retirement Income Plan ("SRIP"), and a Defined Contribution Plan ("DC").

Full actuarial valuations of Alterna Savings' DB, SRIP and the post-retirement benefits programs are carried out not less than every three years. These valuations are updated at each reporting date of December 31, by qualified independent actuaries.

i) Defined Benefit Pension Plan
For the DB pension plan, the SRIP and the post-retirement benefits programs, plan assets are valued at fair values. Benefit costs and accrued benefits are determined based upon actuarial valuations using the projected benefit method prorated on service and management's best estimates. The interest income on plan assets is based on the fair value of plan assets.

The recognition of actuarial gains and losses is applied through immediate recognition in equity (i.e., OCI), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

ii) Defined Contribution Pension Plan
For the DC pension plan, annual pension expense is equal to Alterna Savings' contribution to the plan. The assets of Alterna Savings' DC pension plan are held in independently administered funds.

o) INCOME TAXES

i) Current tax
Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are substantively enacted by the consolidated balance sheet dates.

ii) Deferred income tax

Deferred income tax is provided on temporary differences at the consolidated balance sheet dates between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income; and
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each consolidated balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each consolidated balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the consolidated balance sheet dates.

Current tax and deferred income tax relating to items recognized directly in equity are also recognized in equity and not in the consolidated statements of income except for the tax effects of dividends that are recorded in the consolidated statements of income.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

p) LEASING

<u>Policy applicable from January 1, 2019</u>

The determination of whether an arrangement is a lease, or it contains a lease, is based on if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, Alterna Savings assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly. If the supplier has a substantive substitution right, then the asset is not identified. Substitution rights are substantive if the supplier either has the practical ability to substitute an alternative asset through the period of use or it benefits economically from substituting the asset;

- Alterna Savings has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- Alterna Savings has the right to direct the use of the asset.

Alterna Savings recognized right-of-use assets and lease liabilities at the lease commencement date. The right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liabilities adjusted for any lease payments made at or before commencement date, plus any initial direct costs incurred, less lease incentives received. At the transition date of January 1, 2019, right-of-use assets are recorded as equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use assets or the end of the lease terms. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liabilities.

A lease liability is initially measured at the present value of the lease payments over the lease term that are not paid at the commencement date, discounted using Alterna Savings' incremental borrowing rate. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise or to not exercise an extension option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). A lease liability is measured at amortized cost using the effective interest method. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated statements of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. A lease liability is remeasured when Alterna Savings changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss, if the carrying amount of the right-of-use asset has been reduced to zero.

Alterna Savings presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the consolidated balance sheets. Depreciation expense on the right-of-use assets is included in administration expense and interest expense is included in interest expense in the consolidated statements of income.

Short-term leases and leases of low-value assets

As permitted by IFRS 16, Alterna Savings has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets under approximately $5,000. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

There have been no changes to the accounting of finance leases for Alterna Savings under IFRS 16.

Policy applicable before January 1, 2019

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases that do not transfer to Alterna Savings substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term. Contingent rental payables are recognized as an expense in the period in which they are incurred.

Assets held under finance leases are initially recognized on the consolidated balance sheets at an amount equal to the fair value of the leased assets or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheets as a finance lease obligation. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Operating lease costs are recognized as an expense on a straight-line basis over the lease term, which commences when the lessee controls the physical use of the property.

q) RECOGNITION OF INCOME AND EXPENSES

Revenue is recognized when the amount of revenue and associated costs can be reliably measured and it is probable that economic benefits associated with the transaction will be realized. The following specific recognition criteria are used for recognition of income and expenses:

i) Interest income and interest expense
Interest income and interest expense are recognized in the consolidated statements of income for all interest-bearing financial instruments, except for those designated as FVTPL, using the effective interest rate method. The estimated future cash flows used in this calculation include those determined by the contractual terms of the asset or liability, all fees that are considered to be integral to the effective interest rate, direct and incremental transaction costs, and all other premiums or discounts.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets except for those that have become credit-impaired or that were purchased credit-impaired, for which interest revenue is calculated by applying the effective interest rate to their amortized cost.

ii) Other income
Service charges, ABM network fees, commissions and revenue from other sources are recognized as revenue when the related services are performed or are provided.

r) SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

In the process of applying accounting policies, management has exercised judgment and estimates in determining the amounts recognized in the consolidated financial statements. The most significant uses of judgment and estimates are as follows:

i) Fair value of financial instruments
Alterna Savings measures financial instruments such as cash and cash equivalents, investments classified as FVOCI or designated as FVTPL and derivatives at fair value at each consolidated balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction takes place in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of the asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability and assuming they act in their economic best interest.

A fair value measurement of a non-financial asset (e.g., property and equipment) takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Alterna Savings uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, Alterna Savings determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, Alterna Savings relies upon independent valuations provided by a third party. The valuations use a discounted cash flow model that values the underlying assets based on asset spreads and expected timing of payments on the restructured notes. At the end of each reporting period, Alterna Savings reviews the assumptions and estimates used in the valuations for reasonability.

For the purposes of fair value disclosure, Alterna Savings has determined the classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

ii) Measurement of the ECL
Under IFRS 9, the measurement of the ECL provision for financial assets measured at amortized cost and debt instrument securities measured at FVOCI requires the use of complex models and significant assumptions about future economic condition and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

Explanations of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 5 which also sets out key sensitivities of the ECL to changes in these elements.

iii) Deferred income tax assets
Deferred income tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized.

s) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED
A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2019 and have not been applied in preparing these consolidated financial statements. Alterna Savings does not intend to adopt any of these standards early. The standards below are expected to have an impact on the consolidated financial statements of Alterna Savings:

IFRS 3, *Business Combinations* ("IFRS 3")

In October 2018, amendments were issued to the definition of a business in IFRS 3. The amendment is effective for all transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The amendment intends to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. Entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted but has not been elected by Alterna Savings.

The effect will be assessed for any new acquisitions for Alterna Savings starting after January 1, 2020.

3. ADOPTION OF IFRS 16

Alterna Savings applied IFRS 16 with a date of initial application of January 1, 2019. Alterna Savings applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. The details of the changes in accounting policies are disclosed below.

a) Definition of a lease

Previously, Alterna Savings determined at the start of a contract whether an arrangement is or contains a lease based on International Financial Reporting Interpretations Committee ("IFRIC") 4, *Determining Whether an Arrangement Contains a Lease* ("IFRIC 4"). Under IFRS 16, Alterna Savings assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 2(p).

On transition to IFRS 16, Alterna Savings elected to apply the IFRS 16 definition to all leases, whether they were identified as leases under IAS 17 and IFRIC 4 or not.

b) Leases classified as operating leases under IAS 17

As a lessee, Alterna Savings previously classified leases as operating or finance leases. Under IFRS 16, Alterna Savings recognized right-of-use assets and lease liabilities for most leases other than short-term leases and low-value leases as explained in note 2(p).

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at Alterna Savings' incremental borrowing rate at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability on January 1, 2019, adjusted by the amount of any prepaid or accrued lease payments.

Alterna Savings used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term;
- Applied the exemption not to recognize right-of-use assets and liabilities for leases of low value;
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

c) Leases previously classified as finance leases

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

d) Lessor accounting

Under IFRS 16, Alterna Savings is required to assess the classification of sub-leases with reference to the right-of-use asset, not the underlying asset. On transition, Alterna Savings reassessed the classification of sub-lease contracts previously classified as operating leases under IAS 17 and concluded they are still operating leases under IFRS 16.

e) Impacts on financial statements

On transition to IFRS 16 on January 1, 2019, Alterna Savings recognized an additional $23,660,000 of right-of-use assets, $26,022,000 of lease liabilities, and reduced the deferred rent inducement on the books at January 1, 2019 of $2,362,000 to $nil. When measuring lease liabilities, Alterna Savings discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied was 4.02%. The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments, or write-offs of deferred lease inducements under IAS 17, relating to that lease recognized in the consolidated balance sheets as at December 31, 2018. The net impact on retained earnings on January 1, 2019 was $nil.

(000s)	2019
Operating lease commitments disclosed as at December 31, 2018	**$30,299**
Less: Recognition exemption for:	
Short-term leases recognized on a straight-line basis as expense	**(308)**
Extension (or not termination) options reasonably certain to be exercised	**1,440**
	31,431
Discounted using Alterna Savings' incremental borrowing rate of 4.02%	**26,022**
Lease liability recognized as at January 1, 2019	**$26,022**

4. LOANS AND ADVANCES

(000s)	31 Dec 2019	31 Dec 2018
Loans and advances at amortized cost:		
Personal loans	**$284,173**	$287,550
Residential mortgage loans	**2,384,022**	2,318,459
Commercial loans	**1,220,913**	1,248,895
	$3,889,108	$3,854,904
Less: Loss allowance (note 5)	**(4,694)**	(4,462)
Total loans and advances at amortized cost	**$3,884,414**	$3,850,442
Loans and advances at FVTPL:		
Residential mortgage loans	**$1,033,055**	$969,275
Commercial loans	**132,204**	105,196
Total loans and advances at FVTPL	**$1,165,259**	$1,074,471
	$5,049,673	$4,924,913

5. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Alterna Savings is exposed to the following risks as a result of holding financial instruments: credit risk, market risk and liquidity risk. The following is a description of those risks and how Alterna Savings manages the exposure to them.

a) CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. For Alterna Savings, the three main asset classes exposed to credit risk are loans, investments and derivative financial instruments on the consolidated balance sheets.

Alterna Savings' credit risk objective is to minimize this financial loss. Credit risk is managed in accordance with the Credit Policy for loans and the Investment/Derivative Policy for investments and derivatives. These policies are reviewed and approved annually by the Board of Directors (the "Board").

For loans, Alterna Savings mitigates its credit risk exposure by:

- defining its target market area;
- limiting the principal amount of credit to a borrower at any given time: $100,000 in unsecured personal loans per borrower, $2,500,000 in residential mortgage loans per borrower, $20,000,000 in commercial mortgage loans per borrower and $25,000,000 in aggregate loans per borrower and connected persons;

- performing a credit analysis prior to the approval of a loan;
- obtaining collateral when appropriate;
- employing risk-based pricing; and
- limiting the concentration by industry and geographic location for commercial loans.

Loan exposures are managed and monitored through facility limits for individual borrowers and a credit review process. This review ensures that the borrower complies with internal policy and underwriting standards. Alterna Savings relies on collateral security typically in the form of a fixed and floating charge over the assets of its borrowers. Credit risk is also managed through regular analysis of the ability of members to meet interest and principal repayment obligations and by changing these lending limits where appropriate.

Alterna Savings holds collateral against loans and advances to members in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is either renewed or individually assessed as impaired.

Alterna Savings liquidates the collateral asset to recover all or part of the outstanding exposure in cases where the borrower is unable or unwilling to fulfill its primary obligations.

Credit risk is limited for mortgages secured by residential properties as 51% (2018 – 49%) of the residential mortgages are fully insured by mortgage insurance companies. Alterna Savings 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 consolidated financial statements, net of the loss allowance, represents Alterna Savings' maximum exposure to credit risk without taking account of the value of any collateral obtained.

Alterna Savings mitigates counterparty credit risk of investments and derivatives by aggregating counterparty exposure for each issuer and adhering to the quality guidelines as noted in its Investment/Derivative policy. Investments other than those issued by the Government of Canada and its Crown Corporations as well as liquidity reserve investments and shares held as a condition of membership with Central 1 are diversified by limiting investments in any one issuer to a maximum of 25% of the total portfolio or an authorized limit.

For investments and derivatives, risk is measured by reviewing exposure to individual counterparties to ensure total fair value of investments and derivatives are within the policy limit. This also mitigates concentration risk in the portfolio. The quality of the counterparties is assessed through two published credit rating agencies, DBRS and S&P, as indicated above.

Alterna Savings does not have any significant credit risk exposure to any single counterparty or any group of counterparties by establishing prudent limits.

(i) Amounts arising from ECL

Measurement of ECL

IFRS 9 outlines a three-stage model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in stage 1 and has credit risk continuously monitored.
- If there is a significant increase in credit risk ("SICR") since initial recognition, the financial instrument is moved to stage 2 but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, it is moved to stage 3.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that result from default events possible within the next 12 months. Instruments in stages 2 or 3 have their ECL measured based on ECL on a lifetime basis.
- Purchased or originated credit-impaired financial assets are those that are credit-impaired on initial recognition. Their ECL are always measured at stage 3.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (“PD”);
- Loss given default (“LGD”); and
- Exposure at default (“EAD”).

These parameters are generally derived from externally developed statistical models and purchased market data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are determined based on credit risk rating frameworks, and assessed using rating tools tailored to the various categories of counterparties and exposures. These credit risk ratings are based on externally purchased market data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. Alterna Savings estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by property, loan-to value ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes to property prices. They are calculated using the weighted average of five-year actual loss experiences.

EAD represents the expected exposure in the event of a default. Alterna Savings derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using any maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, Alterna Savings measures ECL considering the risk of default over the maximum contractual period (including any borrower’s extension options) over which it is exposed to credit risk, even if, for risk management purposes, Alterna Savings considers a longer period. The maximum contractual period extends to the date at which Alterna Savings has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for line of credit facilities that include both a loan and an undrawn component, Alterna Savings measures ECL over a period longer than the maximum contractual period. This occurs if Alterna Savings’ contractual ability to demand repayment and cancel the undrawn commitment does not limit Alterna Savings’ exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. Alterna Savings can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when Alterna Savings becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that Alterna Savings expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms. For lines of credit, Alterna Savings will consider an estimation of future draw downs. For retail loans, this has been determined as 85% of the undrawn retail and 5% of the undrawn commercial line of credit in ECL calculation that will be a fair representation of Alterna Savings’ actual loss and LOC limit utilization experience.

For measuring ECL, the estimate of expected cash shortfalls includes the cash flows expected from collateral or proceeds from credit insurance that are part of the contractual terms.

SICR

When determining whether the risk of default on a financial instrument has increased significantly since recognition, Alterna Savings considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on Alterna Savings’ historical experience, expert credit assessment and forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime PD as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors.

Alterna Savings considers that a significant increase in credit risk occurs no later than when a loan is more than 30 days past due. Days past due are determined by counting the number of days since the earliest-elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

Alterna Savings monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default; and
- There is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Risk ratings

Alterna Savings allocates each commercial exposure to a credit risk rating ("risk rating") based on a variety of data that is determined to be predictive of the risk of default and by applying experienced credit judgment. Risk ratings are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Risk ratings are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between risk rating 1 and 2 is smaller than the difference between the risk rating level 2 and 3.

Each exposure is allocated to a risk rating at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different risk rating. The monitoring typically involves use of the following data:

- Information obtained during periodic review of borrower files (e.g. financial statements, budgets and projections). Examples of areas of particular focus are gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, and senior management changes;
- Data from credit reference agencies, press articles, changes in external credit ratings; and
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.

Beacon scores

For retail, the staging is done at a loan level. Alterna Savings uses quarterly updates of Equifax Risk Score credit scores and a table that translates these scores into PDs.

Other factors contributing to a SICR

- Qualitative elements: Alterna Savings monitors qualitative indicators to suggest a significant increase in credit risk such as bankruptcy and consumer proposal.
- Backstop indictors: Financial assets that are more than 30 days past due are assumed to have a SICR and are stage 2 assets. Similarly, financial assets that are more than 90 days past due are assumed to be financial assets with credit risk that has increased to the point that they are considered credit-impaired and stage 3 assets.

Generating the term structure of PD
Risk ratings and beacon scores are primary inputs into the determination of PDs for exposures. Alterna Savings collects performance and default information about its credit risk exposures analyzed by type of product, borrower and risk ratings or beacon scores. For some portfolios, information purchased from external credit reference agencies is also used.

Forward-looking information
Alterna Savings employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates, changes in key macro-economic factors and in-depth analysis of the impact of certain other factors on the risk of default. For most exposures, key macro-economic indicators include Canadian equity, unemployment and oil price or Canada BBB spread for the commercial portfolio and Province level Housing Price Index and unemployment for the retail portfolio.

Based on assessments from the Credit Risk Management Committee and consideration of a variety of external actual and forecast information, Alterna Savings formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios, both negative and positive. Alterna Savings then uses these forecasts to adjust its estimates of PD.

Modified financial assets
The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set in note 2.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects the comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

Alterna Savings renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms typically include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. This applies to both retail and commercial loans.

For financial assets modified as part of Alterna Savings' forbearance policy, the estimate of PD reflects whether the modification has improved or restored Alterna Savings' ability to collect interest and principal and Alterna Savings' previous experience of similar forbearance action. As part of this process, Alterna Savings evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired/in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

There were no material modifications during the reporting period.

Definition of default
Alterna Savings defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- The borrower is unlikely to pay its credit obligations to Alterna Savings in full, without recourse by Alterna Savings to actions such as realizing security (if any is held); or
- The borrower is past due more than 90 days on any material credit obligation to Alterna Savings. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, Alterna Savings also considers indicators that are:

- Qualitative – e.g., breaches of covenant;
- Quantitative – e.g., overdue status and non-payment on another obligation of the same issuer to Alterna; and
- Based on data developed internally and/or obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by Alterna Savings for regulatory capital purposes.

Reconciliation of opening to closing balance of the loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

(000s)	31 Dec 2019				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit-impaired loans	Stage 3 Lifetime ECL - credit-impaired loans	Stage 3 Purchased credit-impaired	Total
Loss allowance on Personal Loans					
As at 1 Jan	$ 241	$ 137	$ 1,034	$ 83	$ 1,495
Transfer in on business combinations:	20	-	-	-	20
Amounts written off	-	-	(955)	(9)	(964)
Transfers to (from) Stage 1 - 12-month ECL	(20)	17	3	-	-
Transfers to (from) Stage 2 - Lifetime ECL - not credit-impaired loans	17	(41)	24	-	-
Transfers to (from) Stage 3 - Lifetime ECL - credit-impaired loans	5	9	(14)	-	-
Recoveries on loans previously written off	-	-	182	-	182
Allowance charged to (recovered from) operations	(18)	13	626	(3)	618
As at 31 Dec	$ 245	$ 135	$ 900	$ 71	$ 1,351
Loss allowance on Residential Mortgages					
As at 1 Jan	$ 37	$ 41	$ 122	$ -	$ 200
Amounts written off	-	-	(67)	-	(67)
Transfers to (from) Stage 1 - 12-month ECL	(18)	9	9	-	-
Transfers to (from) Stage 2 - Lifetime ECL - not credit-impaired loans	1	(8)	7	-	-
Transfers to (from) Stage 3 - Lifetime ECL - credit-impaired loans	-	2	(2)	-	-
Recoveries on loans previously written off	-	-	10	-	10
Allowance charged to (recovered from) operations	8	(21)	(47)	-	(60)
As at 31 Dec	$ 28	$ 23	$ 32	$ -	$ 83
Loss allowance on Commercial loans					
As at 1 Jan	$ 1	$ 5	$ 2,761	$ -	$ 2,767
Amounts written off	-	-	(194)	-	(194)
Transfers to (from) Stage 1 - 12-month ECL	(169)	42	127	-	-
Transfers to (from) Stage 2 - Lifetime ECL - not credit-impaired loans	5	(58)	54	-	1
Transfers to (from) Stage 3 - Lifetime ECL - credit-impaired loans	-	7	(7)	-	-
Recoveries on loans previously written off	-	-	1	-	1
Allowance charged to (recovered from) operations	171	31	483	-	685
As at 31 Dec	$ 8	$ 27	$ 3,225	$ -	$ 3,260
Total as at 31 Dec	$ 281	$ 185	$ 4,157	$ 71	$ 4,694

(000s)	31 Dec 2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit-impaired loans	Stage 3 Lifetime ECL - credit-impaired loans	Stage 3 Purchased credit-impaired	Total
Loss allowance on Personal Loans					
As at 1 Jan	$ 255	$ 197	$ 646	$ -	$ 1,098
Transfer in on business combinations:	66	55	-	119	240
Amounts written off	-	-	(130)	-	(130)
Transfers to (from) Stage 1 - 12-month ECL	(10)	8	2	-	-
Transfers to (from) Stage 2 - Lifetime ECL - not credit-impaired loans	28	(34)	6	-	-
Transfers to (from) Stage 3 - Lifetime ECL - credit-impaired loans	8	13	(21)	-	-
Recoveries on loans previously written off	-	-	131	-	131
Allowance charged to (recovered from) operations	(106)	(102)	400	(36)	156
As at 31 Dec	$ 241	$ 137	$ 1,034	$ 83	$ 1,495
Loss allowance on Residential Mortgages					
As at 1 Jan	$ 64	$ 59	$ 122	$ -	$ 245
Amounts written off	-	-	(927)	-	(927)
Transfers to (from) Stage 1 - 12-month ECL	-	-	-	-	-
Transfers to (from) Stage 2 - Lifetime ECL - not credit-impaired loans	24	(37)	13	-	-
Transfers to (from) Stage 3 - Lifetime ECL - credit-impaired loans	3	7	(10)	-	-
Recoveries on loans previously written off	-	-	2	-	2
Allowance charged to (recovered from) operations	(54)	12	922	-	880
As at 31 Dec	$ 37	$ 41	$ 122	$ -	$ 200
Loss allowance on Commercial loans					
As at 1 Jan	$ 2	$ 4	$ 1,400	$ -	$ 1,406
Amounts written off	-	-	(20)	-	(20)
Transfers to (from) Stage 1 - 12-month ECL	-	-	-	-	-
Transfers to (from) Stage 2 - Lifetime ECL - not credit-impaired loans	-	-	-	-	-
Transfers to (from) Stage 3 - Lifetime ECL - credit-impaired loans	-	-	-	-	-
Recoveries on loans previously written off	-	-	-	-	-
Allowance charged to (recovered from) operations	(1)	1	1,381	-	1,381
As at 31 Dec	$ 1	$ 5	$ 2,761	$ -	$ 2,767
Total as at 31 Dec	$ 279	$ 183	$ 3,917	$ 83	$ 4,462

(ii) Credit-impaired financial assets

The table below breaks down all credit-impaired financial assets by asset class under IFRS 9.

(000s)	**31 Dec 2019**					31 Dec 2018
	Gross carrying amount	**Loss allowance**	**Carrying amount**	Gross carrying amount	Loss allowance	Carrying amount
Personal Loans						
Stage 1 - 12-month ECL	**$ 261,155**	**$ 245**	**$ 260,910**	$ 263,204	$ 241	$ 262,963
Stage 2 - Lifetime ECL - not credit-impaired loans	**16,329**	**135**	**16,194**	17,058	137	16,921
Stage 3 - Lifetime ECL - credit-impaired loans	**6,601**	**900**	**5,701**	7,183	1,034	6,149
Stage 3 - Purchased credit-impaired	**88**	**71**	**17**	105	83	22
	$ 284,173	**$ 1,351**	**$ 282,822**	$ 287,550	$ 1,495	$ 286,055
Residential Mortgages						
Stage 1 - 12-month ECL	**$ 2,221,277**	**$ 28**	**$ 2,221,249**	$ 2,154,105	$ 37	$ 2,154,068
Stage 2 - Lifetime ECL - not credit-impaired loans	**110,264**	**23**	**110,241**	114,828	41	114,787
Stage 3 - Lifetime ECL - credit-impaired loans	**52,481**	**32**	**52,449**	49,526	122	49,404
	$ 2,384,022	**$ 83**	**$ 2,383,939**	$ 2,318,459	$ 200	$ 2,318,259
Commercial Loans						
Stage 1 - 12-month ECL	**$ 771,447**	**$ 8**	**$ 771,439**	$ 886,173	$ 1	$ 886,172
Stage 2 - Lifetime ECL - not credit-impaired loans	**443,271**	**27**	**443,244**	357,769	5	357,764
Stage 3 - Lifetime ECL - credit-impaired loans	**6,195**	**3,225**	**2,970**	4,953	2,761	2,192
	$ 1,220,913	**$ 3,260**	**$ 1,217,653**	$ 1,248,895	$ 2,767	$ 1,246,128
Total	**$ 3,889,108**	**$ 4,694**	**$ 3,884,414**	$ 3,854,904	$ 4,462	$ 3,850,442

Maximum exposure to credit risk on financial instruments subject to impairment

The following table contains an analysis of the maximum exposure to credit risk on financial instruments subject to impairment, based on past due information.

(000s)			**31 Dec 2019**		
Days Overdue	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL - not credit-impaired loans**	**Stage 3 Lifetime ECL - credit-impaired loans**	**Stage 3 Purchased credit-impaired**	**Total**
Personal Loans					
0 to 29 days	**$ 261,155**	**$ 15,948**	**$ 4,735**	**$ 88**	**$ 281,926**
30 to 89 days	**-**	**381**	**639**	**-**	**$ 1,020**
90 days and greater	**-**	**-**	**1,227**	**-**	**$ 1,227**
	$ 261,155	**$ 16,329**	**$ 6,601**	**$ 88**	**$ 284,173**
Residential Mortgages					
0 to 29 days	**$ 2,221,277**	**$ 108,848**	**$ 47,365**	**$ -**	**$ 2,377,490**
30 to 89 days	**-**	**1,416**	**1,545**	**-**	**$ 2,961**
90 days and greater	**-**	**-**	**3,571**	**-**	**$ 3,571**
	$ 2,221,277	**$ 110,264**	**$ 52,481**	**$ -**	**$ 2,384,022**
Commercial Loans					
0 to 29 days	**$ 771,447**	**$ 435,495**	**$ 1,560**	**$ -**	**$ 1,208,502**
30 to 89 days	**-**	**7,776**	**302**	**-**	**$ 8,078**
90 days and greater	**-**	**-**	**4,333**	**-**	**$ 4,333**
	$ 771,447	**$ 443,271**	**$ 6,195**	**$ -**	**$ 1,220,913**
Total	**$ 3,253,879**	**$ 569,864**	**$ 65,277**	**$ 88**	**$ 3,889,108**

(000s)			31 Dec 2018		
Days Overdue	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit-impaired loans	Stage 3 Lifetime ECL - credit-impaired loans	Stage 3 Purchased credit-impaired	Total
Personal Loans					
0 to 29 days	$ 263,086	$ 16,165	$ 5,378	$ -	$ 284,629
30 to 89 days	118	893	796	42	1,849
90 days and greater	-	-	1,009	63	1,072
	$ 263,204	$ 17,058	$ 7,183	$ 105	$ 287,550
Residential Mortgages					
0 to 29 days	$ 2,153,983	$ 114,082	$ 45,769	$ -	$ 2,313,834
30 to 89 days	122	746	3,127	-	3,995
90 days and greater	-	-	630	-	630
	$ 2,154,105	$ 114,828	$ 49,526	$ -	$ 2,318,459
Commercial Loans					
0 to 29 days	$ 886,173	$ 357,395	$ 4,657	$ -	$ 1,248,225
30 to 89 days	-	374	-	-	374
90 days and greater	-	-	296	-	296
	$ 886,173	$ 357,769	$ 4,953	$ -	$ 1,248,895
Total	$ 3,303,482	$ 489,655	$ 61,662	$ 105	$ 3,854,904

(iii) Collateral

Alterna Savings employs a range of policies and practices to mitigate credit risk, the most common of which is accepting collateral. A valuation of the collateral obtained is prepared as part of the loan origination process and reviewed periodically. The credit enhancements Alterna Savings holds as security for loans include: (i) residential lots and properties; (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable; (iii) recourse to the commercial real estate properties being financed; and (iv) recourse to liquid assets, guarantees and securities. The policies regarding obtaining collateral have not significantly changed during the reporting period and there have been no significant changes in the overall quality of the collateral held since the prior period. Alterna Savings closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely Alterna Savings will take possession to mitigate potential credit losses. Below are details of collateral repossessed during the period, by asset class.

		31 Dec 2019		31 Dec 2018
Personal Loans				
Collateral repossession: Carrying value at consolidated balance sheet date of collateral properties possessed during the period (000s)	**$**	**7**	$	2
Residential Mortgage Loans				
Collateral repossession: Carrying value at consolidated balance sheet date of collateral properties possessed during the period (000s)	**$**	**471**	$	250
Commercial Loans				
Collateral repossession: Carrying value at consolidated balance sheet date of collateral properties possessed during the period (000s)	**$**	**135**	$	1,939
Total				
Collateral repossession: Carrying value at consolidated balance sheet date of collateral properties possessed during the period (000s)	**$**	**613**	$	2,191

(iv) Loans with renegotiated terms

Loans with renegotiated terms are defined as loans that have been restructured due to deterioration in the borrower's financial position, for which Alterna Savings has made concessions by agreeing to terms and conditions that are more favorable for the borrower than Alterna Savings had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off.

b) MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: interest rate risk and currency risk.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Alterna Savings' consolidated 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 Savings' interest rate risk objective is to maximize interest margin while complying with the approved interest rate risk policy limits. Alterna Savings 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 Savings' (unconsolidated parent entity) 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 Savings' (unconsolidated parent entity) maximum tolerance exposure to short-term interest rate risk over 12 months is restricted to 3% of average forecasted net interest income with a 95% confidence level. Its maximum tolerable exposure to interest rate risk on the entire consolidated balance sheets is restricted to a 7% decline in the market value of equity as a limit to mitigate long-term interest rate risk. As at December 31, 2019, the results for these measures were 2.07% (2018 – 1.62%) and 0.89% (2018 – 1.25%), respectively.

The following table details Alterna Savings' exposure to interest rate risk resulting from the mismatch, or gap, between financial assets and financial liabilities. The financial instruments have been reported on the earlier of their contractual repricing date or maturity date from the date of purchase. Certain contractual repricing dates have been adjusted according to management's estimates for prepayments and early redemptions. The weighted average interest rates shown represent historical rates for fixed-rate instruments carried at amortized cost and current market rates for variable-rate instruments or instruments carried at fair value. Derivatives are presented in the variable rate category.

(000s)							31-Dec-19	31-Dec-18
	Maturity							
	Non-interest rate sensitive	Variable rate demand	Under 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	Total
Cash and cash equivalents	$ 218,478	$ 298,697	$ 20,000	$ -	$ -	$ -	$ 537,175	$ 164,259
Interest Rates	-	2.08%	1.76%	-	-	-	1.22%	0.00%
Investments	$ 47,052	$ -	$ 17,422	$ 17	$ 348,849	$ 5,430	$ 418,770	$ 425,677
Interest Rates	-	-	2.02%	2.28%	1.91%	3.40%	1.72%	1.96%
Personal loans	$ -	$ 260,010	$ 2,309	$ 2,323	$ 4,505	$ 13,675	$ 282,822	$ 286,055
Interest Rates	-	4.64%	5.01%	7.36%	7.40%	4.76%	4.72%	4.63%
Residential mortgage loans	$ 22,883	$ 151,368	$ 297,579	$ 652,336	$ 2,283,746	$ 9,082	$ 3,416,994	$ 3,287,534
Interest Rates	-	3.24%	2.85%	3.15%	2.99%	3.28%	3.00%	3.06%
Commercial loans	$ -	$ 192,186	$ 145,147	$ 269,854	$ 680,035	$ 62,635	$ 1,349,857	$ 1,351,324
Interest Rates	-	5.66%	5.02%	3.90%	4.02%	3.79%	4.33%	3.63%
Other	$ 135,870	$ 3,968	$ -	$ -	$ -	$ -	$ 139,838	$ 93,468
TOTAL ASSETS	$ 424,283	$ 906,229	$ 482,457	$ 924,530	$ 3,317,135	$ 90,822	$ 6,145,456	$ 5,608,317
Deposits	$ -	$ 2,609,019	$ 214,121	$ 1,177,756	$ 600,870	$ 32	$ 4,601,798	$ 4,312,690
Interest Rates	-	0.79%	2.25%	2.27%	2.24%	2.05%	1.43%	1.33%
Borrowings	$ -	$ -	$ 303,671	$ -	$ -	$ -	$ 303,671	$ 252,010
Interest Rates	-	-	2.22%	-	-	-	2.22%	2.42%
Mortgage securitization liabilities	$ -	$ -	$ 1,109	$ 22,458	$ 746,640	$ 1,506	$ 771,713	$ 669,701
Interest Rates	-	-	2.19%	1.26%	2.19%	2.11%	2.16%	2.17%
Other	$ 13,420	$ 63,235	$ -	$ -	$ -	$ -	$ 76,655	$ 52,716
Members' equity	$ 391,619	$ -	$ -	$ -	$ -	$ -	$ 391,619	$ 321,200
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 405,039	$ 2,672,254	$ 518,901	$ 1,200,214	$ 1,347,510	$ 1,538	$ 6,145,456	$ 5,608,317
MATCHING GAP	$ 19,244	$ (1,766,025)	$ (36,444)	$ (275,684)	$ 1,969,625	$ 89,284	$ -	$ -

Sensitivity Analysis

The key metrics that Alterna Savings uses to monitor interest rate risk are earnings at Risk ("EaR") and Economic Value of Equity at Risk ("EVEaR"). This metric is calculated based on the consolidated balance sheet date and only represents cash flow risk. EaR is defined as the change in interest income from a predetermined shock to interest rates. This exposure is measured over a 12-month period. EVEaR is defined as the change in the present value of the asset portfolio resulting from a predetermined shock versus the change in the present value of the liability portfolio resulting from the same predetermined interest rate shock. To mitigate risk, Alterna Savings uses various derivative financial instruments to manage interest rate risk. The estimated impact of a positive 100 basis point shock on these metrics is presented below.

(000s)	31 Dec 2019	31 Dec 2018
EaR	($4,719)	($7,837)
EVEaR	(0.78%)	(1.42%)

(ii) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Alterna Savings' consolidated net income is exposed to currency risk because of US dollar member deposits.

Alterna Savings mitigates currency risk by holding cash in US dollars, entering into USD-CAD FX swaps or investing in USD money market instruments. Currency risk is managed in accordance with the Structural Risk Management Policy. The policy is reviewed and approved annually by the Board.

Alterna Savings measures currency risk based on the percentage of foreign denominated financial assets against foreign currency denominated financial liabilities on a daily basis. As at December 31, 2019, the percentage of foreign currency denominated financial assets is within 90%–110% of foreign currency denominated financial liabilities.

For a 10% instantaneous exchange rate increase (decrease), Alterna Savings' consolidated net income exposure is minimal.

c) LIQUIDITY RISK

Liquidity risk is the risk that Alterna Savings will encounter difficulty in meeting obligations associated with financial liabilities. Alterna Savings 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 Savings 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. In addition, in the event of a liquidity crisis affecting Central 1, Alterna Savings' credit facilities with Central 1 are supported by Central 1's access to the Inter-Central Liquidity Agreement. Alterna Savings reports the liquidity risk against policy limits to ALCO on a monthly basis and to the Board on a minimum quarterly basis.

Alterna Savings (unconsolidated parent entity) maintains a minimum of 9% (2018 – 9%) of the amount of deposits and borrowings in liquid assets. As at December 31, 2019, the percentage of liquid assets to total deposits and borrowings was 22.70% (2018 – 14.66%). For the contractual maturities of assets and liabilities, please refer to the table under note 5(b)(i) Interest rate risk.

In addition to the liquidity ratio, effective December 31, 2017, credit unions with assets in excess of $500 million are also expected to adopt Liquidity Coverage Ratio ("LCR"), Net Stable Funding Ratio ("NSFR"), and Net Cumulative Cash Flow ("NCCF") metrics to help measure, monitor and manage their level of liquidity. As at December 31, 2019, the LCR and NSFR minimums were met and the NCCF did not show any liquidity deficiencies over the next 12-month period.

The following table provides the maturity profile of financial liabilities based on the contractual repayment obligations, and excludes contractual cash flows related to derivative liabilities, which are disclosed in note 23.

(000s)					**31 Dec 2019**	31 Dec 2018
	Less than 1 year	**1 to 5 years**	**Over 5 years**	**No specified maturity**	**Total**	Total
Deposits	**$1,391,877**	**$600,870**	**$32**	**$2,609,019**	**$4,601,798**	$4,312,690
Mortgage securitization liabilities	**23,567**	**746,640**	**1,506**	**-**	**771,713**	669,701
Borrowings	**303,671**	**-**	**-**	**-**	**303,671**	252,010
	$1,719,115	**$1,347,510**	**$1,538**	**$2,609,019**	**$5,677,182**	$5,234,401

6. INVESTMENTS

(000s)	31 Dec 2019	31 Dec 2018
Designated as FVTPL:		
Other	**$3,851**	$156
Classified as amortized cost:		
National Housing Act mortgage-backed securities	**201**	9,848
Securities purchased under reverse repurchase agreements	**20,457**	22,517
Debt instrument securities designated as FVOCI:		
Central 1 liquidity deposits	**293,057**	284,558
Money market instruments	**75,221**	84,319
Equity instrument securities designated as FVOCI:		
Central 1 shares	**25,280**	23,753
Other	**703**	526
	$418,770	425,677

As a condition of maintaining membership in Central 1 in good standing, Alterna Savings is required to maintain on deposit in Central 1's liquidity pool an amount equal to 6% (December 31, 2018 – 6%) of its total assets adjusted by the 20th day of each month in accordance with the assets as at the previous month-end. The deposits bear interest at various rates.

Except investments at amortized cost, all other investments were measured and recorded at fair value. This includes investments designated as FVTPL and all those designated as FVOCI.

Alterna Savings holds National Housing Act mortgage-backed securities, of which $201,000 (2018 – $9,848,000) is pledged in trust with Canada Housing Trust for Canada Mortgage Bond program ("CMB") reinvestment purposes. These securities mature more than 100 days from the date of acquisition. Under the terms of the CMB program agreement, Alterna Savings is not permitted to withdraw the principal held in trust for any purpose other than the contractual settlement of the mortgage securitization liabilities as disclosed in note 12.

Alterna Savings also purchases securities eligible for reinvestment in the CMB program under reverse purchase agreements.

7. PROPERTY AND EQUIPMENT

(000s)	Land	Buildings	Furniture and Equipment	Computer Hardware	Leasehold Improvements	Total
Cost:						
Balance as at December 31, 2018	$ 2,611	$ 3,360	$ 10,656	$ 6,665	$ 12,400	$ 35,692
Adjustment on adoption of IFRS 16 (note 3)	-	23,630	30	-	-	23,660
Balance as at January 1, 2019	2,611	26,990	10,686	6,665	12,400	59,352
Additions	-	903	63	890	2,333	4,189
Additions from business combinations (note 25)	932	98	-	-	-	1,030
Disposals	-	-	(2,495)	(2,129)	(1,961)	(6,585)
Balance as at December 31, 2019	3,543	27,991	8,254	5,426	12,772	57,986
Depreciation and impairment:						
Balance as at January 1, 2019	-	561	6,448	5,486	7,363	19,858
Depreciation	-	3,835	796	626	669	5,926
Disposals	-	-	(2,443)	(2,127)	(1,950)	(6,520)
Balance as at December 31, 2019	-	4,396	4,801	3,985	6,082	19,264
Net book value:						
Balance as at January 1, 2019	2,611	2,799	4,208	1,179	5,037	15,834
Balance as at December 31, 2019	$ 3,543	$ 23,595	$ 3,453	$ 1,441	$ 6,690	$ 38,722

(000s)	Land	Buildings	Furniture and Equipment	Computer Hardware	Leasehold Improvements	Total
Cost:						
Balance as at January 1, 2018	$ 2,611	$ 3,264	$ 9,224	$ 6,128	$ 12,478	$ 33,705
Additions	-	96	1,542	526	26	2,190
Additions from business combinations (note 25)	-	-	-	78	-	78
Disposals	-	-	(110)	(67)	(104)	(281)
Balance as at December 31, 2018	2,611	3,360	10,656	6,665	12,400	35,692
Depreciation and impairment:						
Balance as at January 1, 2018	-	377	5,396	4,436	6,792	17,001
Depreciation	-	184	1,125	1,100	571	2,980
Disposals	-	-	(73)	(50)	-	(123)
Balance as at December 31, 2018	-	561	6,448	5,486	7,363	19,858
Net book value:						
Balance as at January 1, 2018	2,611	2,887	3,828	1,692	5,686	16,704
Balance as at December 31, 2018	2,611	2,799	4,208	1,179	5,037	15,834

In 2019, under IFRS 16, right-of-use assets totalling $22,000 are included in furniture and equipment and $20,373,000 are included in buildings. Depreciation expense and accumulated depreciation on right-of-use assets were $3,604,000 and $3,604,000 in 2019, respectively. Additions to the right-of-use assets during 2019 were $337,000.

Assets under finance leases totalling $67,000 (2018 - $1,383,000) are included in both computer hardware and furniture and equipment. Depreciation expense and accumulated depreciation on finance leases were $34,000 and $63,000 respectively (2018 - $201,000 and $1,345,000). Assets acquired by means of finance leases are non-cash transactions for purposes of the consolidated statements of cash flows, and consequently have not been presented as either a financing or an investing activity.

Total depreciation charged to income in 2019, including the foregoing right-of-use asset and finance lease depreciation, was $5,926,000 (2018 – $2,980,000) and is included in administration and occupancy expenses under operating expenses on the consolidated statements of income.
The gross carrying amount of fully depreciated property and equipment that are still in use is $9,629,000 as at December 31, 2019 (2018 – $13,323,200).

8. INTANGIBLE ASSETS

(000s)	**Computer Software 2019**	**Goodwill 2019**	**Total 2019**	Computer Software 2018	Goodwill 2018	Total 2018
Cost:						
Balance as at January 1	**$18,657**	**$795**	**$19,452**	$17,914	$604	$18,518
Additions	**1,360**	**8**	**1,368**	746	191	937
Disposals	**(357)**	**-**	**(357)**	(3)	-	(3)
Balance as at December 31	**19,660**	**803**	**20,463**	18,657	795	19,452
Depreciation and impairment:						
Balance as at January 1	**7,706**	**-**	**7,706**	5,551	-	5,551
Depreciation	**1,974**	**-**	**1,974**	2,157	-	2,157
Disposals	**(357)**	**-**	**(357)**	(2)	-	(2)
Balance as at December 31	**9,323**	**-**	**9,323**	7,706	-	7,706
Net book value:						
Balance as at January 1	**10,951**	**795**	**11,746**	12,363	604	12,967
Balance as at December 31	**$10,337**	**$803**	**$11,140**	$10,951	$795	$11,746

Total amortization charged to income in 2019 was $1,974,000 (2018 – $2,157,000) and is included in administration expenses under operating expenses on the consolidated statements of income. All computer software assets have been acquired, not developed.

The gross carrying amount of fully amortized computer software assets that are still in use is $4,288,000 as at December 31, 2019 (2018 – $3,158,200).

9. OTHER ASSETS

(000s)	31 Dec 2019	31 Dec 2018
Securitization receivables and deferred charges	**$49,742**	$34,461
Accrued interest receivable	**13,075**	11,295
Prepaid expenses and other deferred charges	**12,371**	12,898
Other	**6,250**	3,466
	$81,438	$62,120

10. DEPOSITS

(000s)	31 Dec 2019	31 Dec 2018
Demand deposits	**$2,187,409**	$1,949,695
Term deposits	**1,365,675**	1,399,041
Registered plans	**1,048,714**	963,954
	$4,601,798	$4,312,690

As at December 31, 2019, Alterna Savings held US dollar deposits from members of US$68,626,000 (2018 – $124,710,000) with a carrying amount of $89,131,000 (2018 – $170,067,000).

11. BORROWINGS

(000s)	31 Dec 2019	31 Dec 2018
Borrowings	**$100,000**	$145,000
Repurchase agreements	**203,671**	107,010
	$303,671	$252,010

Alterna Savings has access to a $457,150,000 credit facility with Central 1 (2018 – $458,601,000) of which the balance outstanding was $100,000,000 as at December 31, 2019 (2018 – $145,000,000). The facilities are secured by a pledge of certain assets under a general security agreement. This credit facility is in good standing as at December 31, 2019.

Alterna Savings also has access to a $100,000,000 revolving credit facility with a major Schedule 1 Canadian Bank (2018 – $100,000,000) of which the balance outstanding as at December 31, 2019 was $nil (2018 – $nil). The facility is secured by insured mortgage collateral.

Alterna Savings must comply with certain financial covenants in order to be in compliance with its borrowings. As at December 31, 2019, Alterna Savings is in compliance with all required financial covenants.

Borrowings also include $203,671,000 (2018 – $107,010,000) in short-term borrowings in the form of investment repurchase agreements entered into with Central 1 and a major Schedule 1 Canadian Bank.

12. MORTGAGE SECURITIZATION LIABILITIES

(000s)	31 Dec 2019	31 Dec 2018
Mortgage securitization liabilities	**$771,713**	$669,701

As part of its program of liquidity, capital and interest rate risk management, Alterna Savings secures funding for its growth by entering into mortgage securitization arrangements.

Alterna Savings securitizes single-family and multi-unit insured mortgages into mortgage-backed securities ("MBS") and in turn sells the MBS to third parties or Canada Housing Trust ("CHT"). CHT is financed through the issuance of CMBs, which are sold to third party investors under the Canada Mortgage Bond Program. The creation of MBS does not lead to the derecognition of the underlying mortgages as Alterna Savings has retained substantially all the risks and rewards of ownership. However, during the year, Alterna Savings also securitized and sold the MBS of certain insured multi-unit residential mortgages with no prepayment privileges. These mortgages were derecognized as a result of these transactions as there was no prepayment or credit risk associated with the sold MBS. As all mortgages securitized by Alterna Savings are required to be fully insured prior to sale, they post minimal to no credit risk to Alterna Savings immediately before or any time after the securitization transaction.

Alterna Savings has entered into certain transactions which allow the transfer of the contractual right to receive the residual cash flows from the mortgages and transfer substantially all of the risks and rewards of ownership, including credit, interest rate, prepayment and other price risks. In these cases, the mortgages are derecognized from the consolidated balance sheets as described in note 2(i)(iii).

The present value of the future residual cash flows is recorded on the consolidated balance sheets under other assets. If the criteria are not met, the mortgages remain on the books and a secured borrowing is recorded with respect to any consideration received.

In addition to securitizing mortgages for liquidity purposes as described above, Alterna Savings purchases securities eligible for reinvestment in the CMB program under reverse repurchase agreements, and also packages residential insured mortgage loan receivables into MBS and in turn utilizes them to meet the reinvestment needs of the CMB program. These MBS are included in investments on the consolidated balance sheets. Refer to note 19 for income generated from securitization activity.

(000s)	31 Dec 2019	31 Dec 2018
Mortgages securitized:		
On-balance sheet (and included in loans)	**$1,157,740**	$905,662
Off-balance sheet	**1,746,931**	1,199,220
MBS held in trust and purchased securities per CMB reinvestment guidelines (included in investments)	**201**	9,848
Securities purchased under reverse purchase agreements (included in investments)	**20,457**	22,517

13. OTHER LIABILITIES

(000s)	31 Dec 2019	31 Dec 2018
IFRS 16 lease liabilities (note 14)	**$23,469**	-
Accrued interest payable	**23,287**	$18,496
Trade payables and accrued expenses	**9,812**	10,916
Salaries and benefits payable	**5,647**	5,654
Dividend payable	**5,533**	4,737
Certified cheques	**2,304**	1,106
Accrued benefit liability (note 20)	**366**	378
	$70,418	$41,287

14. LEASES

Disclosure for 2019 exclusively under IFRS 16

a) AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEETS

The consolidated balance sheets show the following amounts relating to leases:

(000s)	31 Dec 2019
Right-of-use assets (1)	
Buildings	**$20,373**
Furniture and Equipment	**22**
	$20,395
Lease liabilities (2)	
Current	**$3,203**
Non-current	**20,266**
	$23,469

(1) included in the line item 'Property and equipment' in the consolidated balance sheets.
(2) included in the line item 'Other liabilities' in the consolidated balance sheets. In the previous year, Alterna Savings only recognized lease liabilities in relation to leases that were classified as finance leases under IAS 17. They were presented as part of Alterna Savings' 'Other liabilities'. For adjustments recognized on adoption of IFRS 16 on January 1, 2019, please refer to note 3.

b) AMOUNTS RECOGNIZED IN THE CONSOLIDATED STATEMENTS OF INCOME

The consolidated statements of income shows the following amounts relating to leases:

(000s)	31 Dec 2019
Depreciation charge for right-of-use assets (1)	
Buildings	**$3,596**
Furniture and Equipment	**8**
	$3,604
Interest expense (2)	**$914**
Expense relating to short-term leases (3)	**$716**

(1) $8 included in the line item 'Administration' and $3,596 in the line item 'Occupancy' in the consolidated statements of income.
(2) included in the line item 'Interest expense' in the consolidated statements of income.
(3) $301 included in the line item 'Administration' and $415 in the line item 'Occupancy' in the consolidated statements of income.

The total cash outflow for leases in 2019 was $8,251,000.

Comparative disclosure for 2018 under IAS 17

OPERATING LEASE OBLIGATIONS

The future minimum lease payments required under Alterna Savings' operating leases were as follows:

(000s)	31 Dec 2018
Future minimum lease payments	
Within one year	$3,909
From one to five years	12,366
Later than five years	14,024
Total future minimum lease payments	$30,299

During 2018, $7,154,000 was recognized as an expense, under occupancy expenses in the consolidated statements of income in respect of operating leases.

Operating leases can generally be renewed, at which time all terms are renegotiated.

15. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents the components of accumulated other comprehensive loss within the Consolidated Statements of Changes in Members' Equity.

(000s)	31 Dec 2019	31 Dec 2018
Investments in debt instruments measured at FVOCI		
1 January accumulated other comprehensive loss	**($3,337)**	($3,439)
Other comprehensive income	**2,235**	102
31 December accumulated other comprehensive loss	**(1,102)**	(3,337)
Cash flow hedges		
1 January accumulated other comprehensive loss	**(751)**	(351)
Other comprehensive income (loss)	**693**	(400)
31 December accumulated other comprehensive loss	**(58)**	(751)
Defined benefit plan – actuarial losses		
1 January accumulated other comprehensive loss	**(406)**	(423)
Other comprehensive income	**6**	17
31 December accumulated other comprehensive loss	**(400)**	(406)
Total accumulated other comprehensive loss	**($1,560)**	($4,494)

16. MEMBERS' SHARE ACCOUNTS

a) AUTHORIZED

The authorized share capital of Alterna Savings consists of the following:

i. an unlimited number of Class A special shares, issuable in series
ii. an unlimited number of Class B special shares, issuable in series
iii. an unlimited number of Class C special shares, issuable in series
iv. an unlimited number of membership shares

The shares have no par value.

b) SHARE FEATURES

The rights, privileges, restrictions, terms and conditions attaching to the shares are as follows:

Voting
All Class A, Class B and Class C shares are non-voting.

Membership shares are voting with each member being entitled to one vote, regardless of the number of membership shares held by the member, provided that the member is at least 18 years of age. Each member under the age of 18 is required, as a condition of membership, to own one membership share with an issue price of $1. All other members are required, as a condition of membership, to own 15 membership shares with an issue price of $1 each.

Dividends
Holders of Class A, Class B, Class C and membership shares are entitled to non-cumulative dividends, when and if declared by the Board of Directors, in order of priority with Class A to receive dividends first, followed by in order Class B, Class C and membership shares. All Series holders will rank equally within their class in terms of priority in payment of dividends.

Transferability
No Class A, Class B, Class C or membership share is transferable to any person, other than a person who is a member of Alterna Savings, and then only on the approval of the Board of Directors.

Participation upon Liquidation, Dissolution or Wind-Up
Class A, Class B and Class C shareholders, in order of priority, are entitled to redeem their shares on liquidation, dissolution or wind-up. Holders of membership shares are entitled to the remaining property of Alterna Savings.

Redemption or Cancellation
Class A, Series 1 holders may request redemption of their shares within six months of the shares' anniversary date of September 1st. All redemptions are subject to the discretion of the Board of Directors and are limited annually to a maximum of 10% of the Class A, Series 1 shares outstanding at the end of the immediately preceding fiscal year. The redemption price equals the shares' face value, plus all declared and unpaid dividends thereon. Alterna Savings also has the option to purchase for cancellation all or any part of the outstanding Class A, Series 1 shares at any time after the expiry of the five years from the issue date.

Class A, Series 2 holders may request redemption of their shares on June 30th or December 31st annually. The Board of Directors considers, approves, and if necessary prorates requests for redemption, with redemption requests of the estate of deceased members, expelled members, members who must withdraw a minimum annual amount from their shares held in a Registered Retirement Income Fund and members who must transfer their shares held in a Registered Retirement Savings Plan to a Registered Retirement Income Fund taking priority. All redemption requests are at the discretion of the Board of Directors. Redemptions are limited semi-annually to a maximum of 5% and annually to a maximum of 10% of the Class A, Series 2 shares outstanding at the end of the immediately preceding fiscal year. The redemption price equals the shares' face value, plus all declared and unpaid dividends thereon. Alterna Savings also has the option to purchase for cancellation all or any part of the outstanding Class A, Series 2 shares at any time.

Class A, Series 3 holders may request redemption of their shares at any time. Requests are held to December 31st annually. The Board of Directors considers, approves, and if necessary prorates requests for redemption, with redemption requests of the estate of deceased members, expelled members, members who must withdraw a minimum annual amount from their shares held in a Registered Retirement Income Fund and members who must transfer their shares held in a Registered Retirement Savings Plan to a Registered Retirement Income Fund taking priority. All redemption requests are at the discretion of the Board of Directors. Redemptions are limited annually to a maximum of 10% of the Class A, Series 3 shares outstanding at the end of the immediately preceding fiscal year. The redemption price equals the shares' face value, plus all declared and unpaid dividends thereon. Alterna Savings also has the option to purchase for cancellation all or any part of the outstanding Class A, Series 3 shares at any time.

Class A, Series 4 holders may request redemption of their shares at any time. Requests are held to December 31st annually. The Board of Directors will approve redemption requests once annually, at its first Board meeting in each fiscal year once redemptions can legally occur. All redemptions are at the discretion of the Board of Directors. Redemptions at the shareholder's option in a particular fiscal year are also subject to a limit of 10% of the number of the Class A, Series 4 shares, issued and outstanding at the end of the prior fiscal year. Alterna Savings, at its option, may reacquire the Class A, Series 4 shares, for cancellation after a period of five years following the issuance of the shares.

Class A, Series 5 holders are not permitted to redeem their shares prior to the fifth anniversary of their issuance. The fifth anniversary of their issuance would be between May 31st and August 31st of 2022. The Board will approve redemption requests once annually, at its first Board meeting in each fiscal year once redemptions can legally occur. All redemptions are at the discretion of the Board of Directors. Redemptions at the shareholder's option in a particular fiscal year are also subject to a limit of 10% of the number of the Class A, Series 5 shares, issued and outstanding at the end of the prior fiscal year. Alterna Savings, at its option, may reacquire the Class A, Series 5 shares, for cancellation after a period of five years following the issuance of the shares.

Class A, Series 6 holders are not permitted to redeem their shares prior to the fifth anniversary of their issuance. The fifth anniversary of their issuance would be between June 28th and September 30th of 2024. The Board will approve redemption requests once annually, at its first Board meeting in each fiscal year once redemptions can legally occur. All redemptions are at the discretion of the Board of Directors. Redemptions at the shareholder's option in a particular fiscal year are also subject to a limit of 10% of the number of the Class A, Series 6 shares, issued and outstanding at the end of the prior fiscal year. Alterna Savings, at its option, may reacquire the Class A, Series 6 shares, for cancellation after a period of five years following the issuance of the shares.

Class B, Series 1 holders can request redemption of their shares. However, all redemptions are at the discretion of the Board of Directors and are limited annually to a maximum of 10% of the Class B, Series 1 shares outstanding at the end of the immediately preceding fiscal year. The redemption price equals the shares' face value, plus all declared and unpaid dividends thereon. Alterna Savings also has the option to purchase for cancellation all or any part of the outstanding Class B, Series 1 shares held by the estates of deceased members or expelled members at any time.

Class B, Series 2 holders can request redemption of their shares. However, all redemptions are at the discretion of the Board of Directors and are limited annually to a maximum of 10% of the Class B, Series 2 shares outstanding at the end of the immediately preceding fiscal year. Alterna Savings, at its option, may reacquire the Class B, Series 2 shares, for cancellation after a period of five years following the issuance of the shares.

As no Class C shares have been issued, no redemption rights or restrictions are attached to the shares at this time.

Membership shares are redeemable at their issue price only when the member withdraws from membership in Alterna Savings. They are considered liabilities for accounting purposes because they are redeemable at the option of the holder.

c) ISSUED AND OUTSTANDING

The continuity of the members' share accounts presented as special shares in members' equity and as membership shares in liabilities for the year ended December 31, 2019 is as follows (in thousands of dollars):

	Class A Special Shares											
	Series 1		Series 2		Series 3		Series 4		Series 5		Series 6	
	Number of Shares	$	Number of Shares	$	Number of Shares	$	Number of Shares	$	Number of Shares	$	Number of Shares	$
Issued and outstanding as at December 31, 2017	11,723	11,534	9,804	9,804	33,709	33,317	1,586	1,586	75,000	74,295	-	-
Net shares issued (redeemed) net of issuance costs	888	888	(72)	(72)	824	824	(148)	(148)	(5)	(5)	-	-
Issued and outstanding as at December 31, 2018	12,611	12,422	9,732	9,732	34,533	34,141	1,438	1,438	74,995	74,290	-	-
Net shares issued (redeemed) net of issuance costs	3,011	3,011	(83)	(83)	464	464	(123)	(123)	7	6	50,000	49,620
Issued and outstanding as at December 31, 2019	15,622	15,433	9,649	9,649	34,997	34,605	1,315	1,315	75,002	74,296	50,000	49,620

	Class B Special Shares				Membership Shares	
	Series 1		Series 2			
	Number of Shares	$	Number of Shares	$	Number of Shares	$
Issued and outstanding as at December 31, 2017	2,234	2,234	282	282	1,772	1,772
Issued on business combinations (note 25)	-	-	-	-	173	173
Net shares issued (redeemed) net of issuance costs	(94)	(94)	(5)	(5)	(26)	(26)
Issued and outstanding as at December 31, 2018	2,140	2,140	277	277	1,919	1,919
Issued on business combinations (note 25)	-	-	-	-	30	30
Net shares issued (redeemed) net of issuance costs	(95)	(95)	(7)	(7)	(145)	(145)
Issued and outstanding as at December 31, 2019	2,045	2,045	270	270	1,804	1,804

There are no issued shares that have not been fully paid.

d) DIVIDENDS DECLARED

During 2019, the Board of Directors approved the following dividends based on policies outlined in the offering statements of each class of shares:

(000s)	2019			
Class	Number of holders of record	Dividend Rate	$	Period
Class A, Series 1	**14,746**	**3.50%**	**516**	September 1, 2018 to August 31, 2019
Class A, Series 2	**9,649**	**3.50%**	**338**	January 1, 2019 to December 31, 2019
Class A, Series 3	**34,997**	**3.50%**	**1,225**	January 1, 2019 to December 31, 2019
Class A, Series 4	**1,315**	**3.50%**	**46**	January 1, 2019 to December 31, 2019
Class A, Series 5	**75,000**	**4.00%**	**3,000**	January 1, 2019 to December 31, 2019
Class A, Series 6	**50,000**	**4.00%**	**1,027**	June 28 - September 30, 2019 to December 31, 2019
Class B, Series 1	**2,062**	**1.00%**	**21**	January 1, 2018 to December 31, 2018
Class B, Series 2	**268**	**1.00%**	**2**	January 1, 2018 to December 31, 2018
			6,175	
Income taxes			**1,142**	
Total dividends paid net of tax			**5,033**	

(000s)		2018		
Class	Number of holders of record	Dividend Rate	$	Period
Class A, Series 1	12,673	3.50%	444	September 1, 2017 to August 31, 2018
Class A, Series 2	9,732	3.80%	370	January 1, 2018 to December 31, 2018
Class A, Series 3	34,533	3.80%	1,312	January 1, 2018 to December 31, 2018
Class A, Series 4	1,438	3.80%	55	January 1, 2018 to December 31, 2018
Class A, Series 5	74,995	4.00%	3,000	January 1, 2018 to December 31, 2018
Class B, Series 1	2,234	0.90%	20	January 1, 2017 to December 31, 2017
Class B, Series 2	282	0.90%	2	January 1, 2017 to December 31, 2017
			5,203	
Income taxes			1,020	
Total dividends paid net of tax			4,183	

17. INTEREST INCOME AND INTEREST EXPENSE

(000s)	**31 Dec 2019**	31 Dec 2018
Interest income:		
Residential mortgage loans	**$96,426**	$79,507
Commercial loans	**59,356**	57,163
Personal loans	**14,799**	13,052
Swap agreements	**208**	399
	$170,789	$150,121
Interest expense:		
Term deposits	**$33,100**	$21,833
Mortgage securitization cost of funds	**22,307**	13,424
Registered plans	**20,518**	15,206
Demand deposits	**14,375**	12,233
Borrowings	**4,359**	6,039
Leases (note 14)	**914**	-
	$95,573	$68,735

$Nil interest income was recorded on Stage 3 loans for the years ended December 31, 2019 and 2018, as they were 100% provisioned.

18. INVESTMENT INCOME

(000s)	**31 Dec 2019**	31 Dec 2018
Income on financial assets FVOCI	**$14,393**	$8,294
Income on financial assets amortized cost	**552**	946
Income on financial assets FVTPL	**538**	-
	$15,483	$9,240

19. SECURITIZATION INCOME

(000s)	31 Dec 2019	31 Dec 2018
Net gain on sale of mortgages (1)	**$2,194**	$2,516
Servicing income	**563**	410
Net change in unrealized gain or loss on hedging activities	**121**	(86)
	$2,878	$2,840

(1) Gain on sale of mortgages is net of hedging impact.

The hedging activities included in the above table hedge interest rate risk on loans held for sale. The derivatives, which are bond forwards, are not designated in hedge accounting relationships. The gains or losses on the derivatives are mainly offset by the fair value change in the loans held for sale.

20. EMPLOYEE BENEFIT PLANS

Until March 31, 2006, some employees were eligible to join in the Alterna Savings DB pension plan and the senior executives who participated in the DB pension plan were provided with a SRIP. Both plans provide for pensions based on length of service and career average earnings.

On January 1, 2008, pension benefits for employees participating in Alterna Savings' DB pension plan began to accrue under the DC pension plan and all benefits ceased to accrue under the existing DB pension plan and SRIP. The post-retirement benefits programs were acquired on business combinations and provide certain post-retirement benefits to a closed group of retirees. Existing retirees will continue to receive benefits under the plans in which they had been enrolled.

Most employees are eligible to participate in the DC pension plan, which prescribes both employer and employee contributions.

The DB pension plans are registered under the *Income Tax Act* (Canada) and the *Pension Benefits Act, R.S.O. 1990* (Ontario) (the "PBA"). The Board of Directors of Alterna Savings, through various committees, is responsible for the oversight and supervision of the plans. Contributions are made to these separately administered plans.

Every three years, the Board of Directors reviews the level of funding as required by the PBA. This review consists of asset-liability matching strategy and investment risk management policy as well as minimum funding requirements. The PBA requires Alterna to clear any plan deficit based on the actuarial valuation for funding purposes over a period of five years, if any.

These DB pension plans are exposed to Canada's inflation, interest rate risks and changes in the life expectancy for pensioners.

Defined Pension and Benefits Plans
All defined benefit plans are valued using the projected unit-credit method to determine the present value of the defined benefit obligation and the related service costs. Under this method, the determination is based on actuarial calculations which include assumptions about demographics, salary increases and interest and inflation rates.

The assets and accrued benefit obligation of the DB pension plans and the post-retirement benefits program were measured as at December 31, 2019, and are detailed as follows:

(000s)			**31 Dec 2019**	31 Dec 2018
	Pension	**Benefits**	**Total**	Total
Accrued benefit obligation:				
Balance, beginning of year	**$27,157**	**$378**	**$27,535**	$27,543
Transfer in on business combination	**-**	**-**	**-**	2,059
Interest cost	**1,027**	**15**	**1,042**	918
Re-measurement (gains)/losses				
Actuarial gains and losses from changes in financial assumptions	**2,794**	**(12)**	**2,782**	(1,592)
Benefits paid	**(1,523)**	**(15)**	**(1,538)**	(1,393)
Balance, end of year	**$29,455**	**$366**	**$29,821**	$27,535
Plans' assets:				
Fair value, beginning of year	**$32,620**	**$-**	**$32,620**	$31,290
Transfer in on business combination	**-**	**-**	**-**	3,490
Interest income	**1,241**	**-**	**1,241**	1,050
Re-measurement (gains)/losses				
Return on plan assets (excluding amounts included in net interest expense)	**3,342**	**-**	**3,342**	(1,837)
Employer contributions	**-**	**15**	**15**	20
Benefits paid	**(1,523)**	**(15)**	**(1,538)**	(1,393)
Fair value, end of year	**$35,680**	**$-**	**$35,680**	$32,620
Over funded (under funded) status of plans	**$6,225**	**($366)**	**$5,859**	$5,085
Limit on amount recognized (min. funding obligation/unrecognized plan surplus)	**(6,225)**	**-**	**(6,225)**	(5,463)
Accrued benefit liability	**$-**	**($366)**	**($366)**	($378)

As at December 31, 2019, the total over funded status of the pension plans was $6,225,000 (2018 - $5,463,000), which comprised of the over funded status of the DB pension plan of $5,792,000 (2018 – $5,020,000 over funded) and the over funded status of the SRIP of $433,000 (2018 – $443,000 over funded).

The following is a summary of the weighted average significant actuarial assumptions used in measuring the plans' accrued pension benefit obligation:

	31 Dec 2019		31 Dec 2018	
	Pension	**Benefits**	Pension	Benefits
Discount rate for accrued benefit obligation	**3.89%**	**3.80%**	3.45%	3.40%
Discount rate for pension expense	**2.77%**	**3.00%**	3.48%	3.80%

The health care cost trend rate is expected to be 4.5% in 2020.

A 1% increase in the discount rate would decrease the accrued benefit obligation by $3,449,000 and a 1% decrease in the discount rate would increase the accrued benefit obligation by $4,242,000. Changes in health care rates would impact the accrued benefit obligation by a nominal amount. The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

As at December 31, 2019, the fair value of the pension plans' assets for each major asset class was as follows:

(000s)	**31 Dec 2019**	31 Dec 2018
Fixed Income Funds		
Cash equivalents	**$1,632**	$1,490
Bonds	**19,721**	18,479
	21,353	19,969
Equity Funds:		
Canadian	**7,213**	6,506
United States	**2,043**	1,492
Other international	**3,237**	2,774
	12,493	10,772
Other Funds:		
Real Estate	**1,834**	1,879
	$35,680	$32,620

The fair values of the above equity and debt instrument securities are classified as Level 1 or Level 2 financial instruments.

Amounts recognized in comprehensive income in respect of these defined benefit plans are as follows:

(000s)	**31 Dec 2019**	31 Dec 2018
Net interest expense	**$14**	$13
Components of defined benefit costs recognized in the consolidated statements of income	**$14**	$13

(000s)	**31 Dec 2019**	31 Dec 2018
Re-measurement on the net defined benefit liability:		
Return on plan assets (excluding amounts included in net interest expense)	**$3,342**	($1,837)
Actuarial gains and losses from experience adjustments	**(14)**	-
Actuarial gains and losses from changes in financial assumptions	**(2,769)**	1,592
Limit on amount recognized (min. funding obligation/unrecognized plan surplus)	**(548)**	262
Components of defined benefit cost recognized in other comprehensive income	**$11**	$17

The next actuarial valuation for funding purposes of the DB pension plan is to be performed as at December 31, 2019 (the most recent valuation was performed as at December 31, 2016). There are no required funding valuation dates for the SRIP or the post-retirement benefits program as they are not registered plans. The most recent valuation prepared for accounting purposes was December 31, 2016 for the DB pension plan, January 1, 2017 for the SRIP and August 31, 2019 for the post-retirement benefits program.

Alterna Savings expects to contribute approximately $21,000 to its defined benefit plan in 2020. The average duration of the defined benefit plan obligation at the end of the reporting period is 14.08 years for the DB pension plan, 9.5 years for the SRIP and 10.9 years for the post-retirement benefits program.

Defined Contribution Pension Plan
The pension expense for the DC pension plan for the year ended December 31, 2019 was $1,283,000 (2018 – $1,303,000).

Total Cash Payments
Total cash payments for employee benefit plans for 2019, consisting of cash contributed by Alterna Savings to its funded DB pension plans, cash payments directly to beneficiaries for its unfunded post-retirement benefits program and cash contributed to its DC pension plan were $1,298,000 (2018 – $1,323,000).

21. INCOME TAXES

The significant components of the deferred income tax asset (liability) of Alterna Savings are as follows:

	Consolidated balance sheets	
(000s)	**31 Dec 2019**	31 Dec 2018
Lease liabilities	**$569**	$-
Investments	**220**	391
Loss allowance	**124**	127
Derivatives	**93**	891
Deferred pension liability	**68**	74
Other	**-**	51
Property and equipment	**(1,412)**	(805)
Net deferred income tax (liability) asset	**($338)**	$729

On consolidated balance sheets:		
Deferred income tax asset	**$1,454**	$1,694
Deferred income tax liability	**(1,792)**	(965)
Net deferred income tax	**($338)**	$729

The reconciliation of income tax computed at the statutory rates to income tax expense is as follows:

(000s)		**31 Dec 2019**		31 Dec 2018
	Amount	**Percent**	Amount	Percent
Expected tax provision at combined federal and provincial rates	**$5,395**	**27%**	$7,640	27%
Additional credit for Credit Unions	**(1,165)**	**(6%)**	(1,881)	(7%)
Deferred income tax rate differential	**(216)**	**(1%)**	(20)	-%
Permanent differences	**48**	**-%**	35	-%
Other – net	**(213)**	**(1%)**	(16)	-%
	$3,849	**19%**	$5,758	20%

The components of income tax expense for the years ended December 31, 2019 and 2018 are as follows:

(000s)	**31 Dec 2019**	31 Dec 2018
Current income tax	**$2,948**	$6,023
Deferred income tax	**901**	(265)
Income tax expense reported in the consolidated statements of income	**$3,849**	$5,758

The income tax related to items charged or credited to other comprehensive income (loss) during the year is as follows:

(000s)	**31 Dec 2019**	31 Dec 2018
Change in unrealized gains and losses on FVOCI financial assets	**$546**	$23
Change in gains and losses on derivatives designated as cash flow hedges	**178**	(94)
Defined benefit plan – actuarial losses	**5**	-
	$729	($71)

The current and deferred income tax charged or credited to other comprehensive income (loss) during the year is as follows:

(000s)	31 Dec 2019	31 Dec 2018
Current income tax	**$546**	$19
Deferred income tax	**183**	(90)
	$729	($71)

No deferred income tax liability has been recorded for the temporary difference associated with the investment in subsidiary as it is probable that the temporary difference will not reverse in the foreseeable future.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out in the table below represent the estimated fair values of the financial instruments of Alterna Savings for each classification of financial instrument, including the fair values of loans calculated before the loss allowance, using the valuation methods and assumptions described below.

(000s)	31 Dec 2019		31 Dec 2018	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
FVOCI:				
Investments	**$394,261**	**$394,261**	$393,156	$393,156
FVTPL:				
Investments	**3,851**	**3,851**	156	156
Derivative financial instruments				
- interest rate swaps	**587**	**587**	558	558
- bond forwards	**3,572**	**3,572**	-	-
- foreign currency forward contracts	**-**	**-**	1,126	1,126
- purchased options	**2,012**	**2,012**	1,355	1,355
Loans and advances				
- residential mortgage loans	**1,033,055**	**1,033,055**	969,275	969,275
- commercial loans	**132,204**	**132,204**	105,196	105,196
Amortized cost:				
Cash and cash equivalents	**537,175**	**537,175**	164,259	164,259
Investments	**20,658**	**20,658**	32,365	32,365
Loans and advances				
- personal loans	**284,173**	**284,589**	287,550	302,534
- residential mortgage loans	**2,384,022**	**2,444,030**	2,318,459	2,370,677
- commercial loans	**1,220,913**	**1,257,864**	1,248,895	1,285,220
Total	**$6,016,483**	**$6,113,858**	$5,522,350	$5,625,877
Financial liabilities:				
Other liabilities:				
Deposits				
- demand deposits	**$2,187,409**	**$2,187,409**	$1,949,695	$1,949,695
- term deposits	**1,365,675**	**1,368,424**	1,399,041	1,397,451
- registered plans	**1,048,714**	**1,049,025**	963,954	959,721
Mortgage securitization liabilities	**771,713**	**781,138**	669,701	675,097
Borrowings	**303,671**	**303,671**	252,010	252,010
FVTPL:				
Derivative financial instruments				
- interest rate swaps	**159**	**159**	1,227	1,227
- bond forwards	**1,932**	**1,932**	4,517	4,517
- embedded options	**2,004**	**2,004**	1,348	1,348
Total	**$5,681,277**	**$5,693,762**	$5,241,493	$5,241,066

Management has assessed that cash and cash equivalents, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The following methods and assumptions were used to estimate the fair values:

(i) Fair values of FVOCI investments are derived from discounted cash flow valuation models. Discount rates are based on observable market inputs, other than quoted prices, which include relevant interest rates pertaining to the value of the investments.
(ii) Alterna Savings enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are interest rate swaps and foreign currency forwards. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. As at December 31, 2018, the marked-to-market value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognized at fair value.

(iii) Purchased and embedded options are measured similarly to the interest rate swaps and foreign currency forward contracts. However, as these contracts are not collateralized, Alterna Savings also takes into account the counterparties' non-performance risks (for the purchased options) or its own non-performance risk (for the embedded derivative liabilities). As at December 31, 2019, Alterna Savings assessed these risks to be insignificant.

(iv) Personal loans, residential mortgage loans, commercial loans and deposits - at discounted cash flows using prevailing interest rates of instruments with similar remaining terms. The fair values of all types of loans are calculated before any loss allowance.

FAIR VALUE HIERARCHY

The following tables show the hierarchical classification of financial assets and financial liabilities measured or disclosed at fair value as at December 31, 2019 and 2018:

December 31, 2019 (000s)	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Financial investments FVTPL	**$ -**	**$ -**	**$ 3,851**	**$ 3,851**
Financial investments FVOCI	**-**	**394,261**	**-**	**394,261**
Derivative financial instruments				
- interest rate swaps	-	**587**	-	**587**
- bond forwards	-	**3,572**	**-**	**3,572**
- purchased options	-	**2,012**	-	**2,012**
Loans and advances				
- residential mortgage loans	-	**1,033,055**	-	**1,033,055**
- commercial loans	-	**132,204**	-	**132,204**
Assets for which fair values are disclosed:				
Loans and advances				
- personal loans	-	-	**284,589**	**284,589**
- residential mortgage loans	-	-	**2,444,030**	**2,444,030**
- commercial loans	-	-	**1,257,864**	**1,257,864**
Liabilities measured at fair value:				
Derivative financial instruments				
- interest rate swaps	-	**159**	-	**159**
- bond forwards	-	**1,932**	-	**1,932**
- embedded options	-	**2,004**	-	**2,004**
Liabilities for which fair values are disclosed:				
Deposits				
- demand deposits	-	-	**2,187,409**	**2,187,409**
- term deposits	-	-	**1,368,424**	**1,368,424**
- registered plans	-	-	**1,049,025**	**1,049,025**
Mortgage securitization liabilities	-	-	**781,138**	**781,138**

December 31, 2018 (000s)	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Financial investments FVTPL	$-	$-	$156	$156
Financial investments FVOCI	-	393,156	-	393,156
Derivative financial instruments				
- interest rate swaps	-	558	-	558
- bond forwards	-	-	-	-
- foreign currency forward contract	-	1,126	-	1,126
- purchased options	-	1,355	-	1,355
- equity options	-	-	-	-
Loans and advances				
- residential mortgages	-	969,275	-	969,275
- commercial mortgages	-	105,196	-	105,196
Assets for which fair values are disclosed:				
Loans and advances				
- personal loans	-	-	302,534	302,534
- residential mortgage loans	-	-	2,370,677	2,370,677
- commercial loans	-	-	1,285,220	1,285,220
Liabilities measured at fair value:				
Derivative financial instruments				
- interest rate swaps	-	1,227	-	1,227
- bond forwards	-	4,517	-	4,517
- embedded options	-	1,348	-	1,348
- foreign currency forward contracts	-	-	-	-
Liabilities for which fair values are disclosed:				
Deposits				
- demand deposits	-	-	1,949,695	1,949,695
- term deposits	-	-	1,397,451	1,397,451
- registered plans	-	-	959,721	959,721
Mortgage securitization liabilities	-	-	675,097	675,097

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2019 and 2018.

The table below presents the changes in fair value of Level 3 financial assets and liabilities for the year ended December 31, 2019. These instruments are measured at fair value utilizing non-observable market inputs. The total net gains included in investment income in the consolidated statements of income, on financial instruments for which fair value was estimated using a valuation technique requiring non-observable market inputs was $538,000 (2018 – $nil).

December 31, 2019		**Net realized/unrealized gains included in**					
(000s)	**Opening balance**	**Net income**	**OCI**	**Purchases**	**Settlements**	**Closing balance**	**Unrealized gains (1)**
Financial investments FVTPL	**$156**	**$538**	**$-**	**$3,313**	**($156)**	**$3,851**	**$538**
	$156	**$538**	**$-**	**$3,313**	**($156)**	**$3,851**	**$538**

December 31, 2018		Net realized/unrealized gains included in					
(000s)	Opening balance	Net income	OCI	Purchases	Settlements	Closing balance	Unrealized gains (1)
Financial investments FVTPL	$156	$-	$-	$-	$-	$156	$-
	$156	$-	$-	$-	$-	$156	$-

(1) Changes in unrealized gains included in earnings for instruments held as at December 31, 2019 and 2018.

There were no transfers in or out of Level 3 during the years ended December 31, 2019 and 2018.

The table below sets out information about significant unobservable inputs used as at December 31, 2019 in measuring financial instruments categorized as Level 3 in the fair value hierarchy:

Description	**Fair value as at December 31, 2019**	**Valuation technique**	**Unobservable input**	**Range**
Private equity fund investment	**$3,851**	Net asset value (2)	-	-

(2) Alterna Savings has determined that the reported net asset value represents fair value at the end of the reporting period.

23. DERIVATIVE FINANCIAL INSTRUMENTS

The tables below provide a summary of Alterna Savings' derivative portfolio, their notional values and fair values as at December 31, 2019 and 2018:

(000s)					**31 Dec 2019**
	Maturities of derivatives (Notional amounts)			Fair Value	
	Within 1 Year	1 to 5 Years	Total	Derivative Instrument Assets	Derivative Instrument Liabilities
Interest rate contracts					
Swaps	**$123,082**	**$150,488**	**$273,570**	**$587**	**$159**
Bond forwards	**330,100**	**-**	**330,100**	**3,572**	**1,932**
	453,182	**150,488**	**603,670**	**4,159**	**2,091**
Other derivatives					
Index-linked call options	**9,828**	**16,031**	**25,859**	**2,012**	**2,004**
	9,828	**16,031**	**25,859**	**2,012**	**2,004**
	$463,010	**$166,519**	**$629,529**	**$6,171**	**$4,095**

(000s)					31 Dec 2018
	Maturities of derivatives (Notional amounts)			Fair Value	
	Within 1 Year	1 to 5 Years	Total	Derivative Instrument Assets	Derivative Instrument Liabilities
Interest rate contracts					
Swaps	$61,896	$234,628	$296,524	$558	$1,227
Bond forwards	420,400	-	420,400	-	4,517
	482,296	234,628	716,924	558	5,744
Other derivatives					
Foreign currency forward contracts	22,000	-	22,000	1,126	-
Index-linked call options	9,719	22,719	32,438	1,355	1,348
	31,719	22,719	54,438	2,481	1,348
	$514,015	$257,347	$771,362	$3,039	$7,092

The notional amounts are used as the basis for determining payments under the contracts and are not actually exchanged between Alterna Savings and its counterparties. They do not represent credit risk exposure.

a) INTEREST RATE CONTRACTS

(i) Swaps
Alterna Savings uses interest rate swap agreements to mitigate risks associated with interest rate fluctuations and to control the matching of the cash flow maturities and interest adjustment dates of its assets and liabilities.

Designated cash flow hedges are interest rate swap agreements which qualify as hedging relationships for accounting purposes under IAS 39. All other interest rate swap agreements are classified as economic hedges. Alterna Savings has designated certain hedging relationships involving interest rate swaps that convert variable rate loans to fixed rate loans as cash flow hedges.

Interest rate swap agreements are valued by netting the discounted variable and fixed cash flows. Variable cash flows are calculated using implied interest rates as determined by current Canadian Dealer Offered Rate ("CDOR") and swap interest rates, and term relationships. Fixed cash flows are calculated based on the rates stated in the agreements. These notional cash flows are discounted using the relevant points on the zero interest curve plus a Credit Value Adjustment spread as derived from the month-end CDOR and swap rates.

(ii) Bond forwards
As part of its interest rate risk management process, Alterna Savings utilizes bond forwards to maintain its interest rate exposure on forecasted debt issuance associated with securitization activity. These hedging relationships have not been designated as cash flow hedges.

b) OTHER DERIVATIVES

(i) Foreign currency forward contracts
As part of its program to manage foreign currency exposure, Alterna Savings enters into forward rate agreements to purchase US dollars. These agreements function as an economic hedge against Alterna Savings' net US dollar denominated member liabilities. Gains/losses on foreign currency forward contracts are included in unrealized gains on financial instruments on the consolidated statements of income.

(ii) Index-linked call options
Alterna Savings has issued $25,859,000 of indexed term deposits to its members as at December 31, 2019 (2018 – $32,438,000). These term deposits have maturities of three or five years at issuance and pay interest to the depositors, at the end of the term, based on the performance of the S&P/TSX60 Index. Alterna Savings uses purchased call options on the above indices with equivalent maturities to offset the exposure associated with these products.

Alterna Savings pays a premium amount based on the notional amount at the inception of the equity index-linked option contract. At the end of the term, Alterna Savings receives from the counterparties payments equal to the amount that will be paid to the depositors based on the performance of the respective indices.

(iii) Equity options
The fair value of the options outstanding as at December 31, 2019 was based on the most recent audited share value of the company to which the options relate. There are no options outstanding as at December 31, 2019.

c) DESIGNATED ACCOUNTING HEDGES

The following table discloses the impact of derivatives designated in hedge accounting relationships and the related hedged items, where appropriate, in the consolidated statements of income and in OCI for the years ended December 31, 2019 and 2018.

(000s)		**31 Dec 2019**			31 Dec 2018	
	Amounts recognized in OCI	Amounts reclassified from OCI into income	Hedge ineffectiveness recognized in other income	Amounts recognized in OCI	Amounts reclassified from OCI into income	Hedge ineffectiveness recognized in other income
Interest rate contracts						
Cash flow hedges	**$693**	**$142**	**$42**	($400)	($95)	$2
Fair value hedges	**-**	**-**	**1**	-	-	(30)
	$693	**$142**	**$43**	($400)	($95)	($28)

24. CAPITAL MANAGEMENT

Alterna Savings' (unconsolidated parent entity) capital management objective is to ensure the long-term viability of the company and the security of member deposits by holding a level of capital deemed sufficient to protect against unanticipated losses and to comply with the capital requirements set out in Act. The Act requires credit unions to maintain minimum regulatory capital, as defined by the Act. Regulatory capital is calculated as a percentage of total assets and of risk-weighted assets. Risk-weighted assets are calculated by applying risk-weighted percentages, as prescribed by the Act, to various asset categories, operational and interest rate risk criteria. The prescribed risk weights are dependent on the degree of risk inherent in the asset.

Tier 1 capital, otherwise known as core capital, is the highest quality. It is comprised of retained earnings, contributed surplus, membership shares and special shares, excluding Class B, Series 1. Tier 1 capital as at December 31, 2019 was $312,495,000 (2018 – $266,228,000).

Tier 2 capital, otherwise known as supplementary capital, contributes to the overall strength of a financial institution as a going concern, but is of a lesser quality than Tier 1 capital relative to both permanence and freedom from charges. It is comprised of the Class B, Series 1 special shares and the eligible portion of the stage 1 and stage 2 loan allowances. Tier 2 capital as at December 31, 2019 was $2,630,000 (2018 – $2,578,000).

The Act requires credit unions to maintain a minimum capital leverage ratio of 4% and a risk-weighted capital ratio of 8%.

Alterna Savings manages its capital in accordance with the Capital Management Policy, which is reviewed and approved annually by the Board.

In addition, Alterna Savings established an Internal Capital Adequacy Assessment Process ("ICAAP") and provided capital for major enterprise risks in addition to those required by the Act.

The processes for managing capital include setting policies for capital management, monitoring and reporting, setting policies for related areas such as asset liability management, reporting to the Board regarding financial results and capital adequacy, and setting budgets and reporting variances to those budgets.

Alterna Savings may not pay dividends on membership shares or special shares if there are reasonable grounds for believing that Alterna Savings is, or would by that payment become, insolvent, or that regulatory liquidity or capital levels would not be met after payment.

Capital Summary
As at December 31, 2019, Alterna Savings (unconsolidated parent entity) was in compliance with the Act and regulations with a capital leverage ratio of 6.06% (2018 – 5.53%) and a risk-weighted capital ratio of 14.03% (2018 – 11.96%).

25. BUSINESS COMBINATIONS

On May 1, 2019, Alterna Savings amalgamated with City Savings Credit Union ("City Savings") and the results of its operations have been included in the consolidated financial statements since that date. Post-amalgamation, City Savings was rebranded as Alterna Savings and Credit Union Limited.

On December 1, 2018, Alterna Savings amalgamated with the Toronto Municipal Employees' Credit Union ("TMECU") and the results of its operations have been included in the consolidated financial statements since that date. Post-amalgamation, TMECU's name was changed to Toronto Municipal Employees' Savings ("TME Savings"), a division of Alterna Savings. They joined Alterna Savings under the federated operating model, which permits the credit union to continue to operate under its own brand.

Alterna Savings acquired 100% of the net assets of TMECU and City Savings in a share for share exchange. The consideration transferred to acquire the net assets of TMECU and City Savings was determined by valuing the businesses acquired using the net asset value approach. Under this approach, the net present value of the business is calculated with the resulting fair value allocated to the net assets acquired less shares issued with any remaining fair value allocated to contributed surplus.

	City Savings - 1 May 2019			TMECU - 1 Dec 2018		
(000s)	**Book Value**	**Adjustment**	**Fair Value**	Book Value	Adjustment	Fair Value
Cash and cash equivalents	**$ 3,052**	**$ -**	**$ 3,052**	$ 3,782	$ -	$ 3,782
Investments	**3,371**	**6**	**3,377**	10,450	25	10,475
Loans and advances	**35,792**	**(737)**	**35,055**	77,239	(1,188)	76,051
Property and equipment	**98**	**932**	**1,030**	78	-	78
Goodwill	**-**	**8**	**8**	-	191	191
Derivative financial instruments	**29**	**28**	**57**	75	(59)	16
Other assets	**211**	**-**	**211**	312	-	312
Deposits	**(38,648)**	**(49)**	**(38,697)**	(85,857)	430	(85,427)
Derivative financial instruments	**(29)**	**(28)**	**(57)**	(75)	59	(16)
Other liabilities	**(789)**	**-**	**(789)**	(1,064)	-	(1,064)
Membership shares	**(30)**	**-**	**(30)**	(173)	-	(173)
Net assets	**$ 3,057**	**$ 160**	**$ 3,217**	$ 4,767	$ (542)	$ 4,225
Contributed surplus			**$ 3,217**			$ 4,225

The goodwill represents the synergies to be recognized from the amalgamation of TMECU and Alterna Savings and City Savings and Alterna Savings. As at December 31, 2019, the total amount of goodwill expected to be deductible for tax purposes is $199,000 (2018 - $191,000).

The carrying values of cash and cash equivalents and other assets and liabilities approximate their fair value due to their short-term nature.

For variable rate interest loans and deposits that re-price frequently, carrying value is assumed to approximate fair values.

Fair value of other loans and deposits is estimated using discounted cash flow techniques based on the contractual repayment of the products. In addition, the fair value of loans is net of a loss allowance of $20,000 for City Savings (2018 - $240,000 for TMECU).

The fair value of property and equipment has been assessed using a combination of acquisition date net book value, considered in certain instances to approximate fair value, and an appraisal based on market information.

Income and expenses derived from the acquisition of City Savings and TMECU have been included in the consolidated statements of income from May 1, 2019 and December 1, 2018, respectively, onward. It is not practical to disclose the amount of profit or loss attributable to the legacy credit unions since this is not identifiable on Alterna Savings' accounts and would be immaterial in amount.

26. COMMITMENTS AND CONTINGENCIES

a) CREDIT INSTRUMENTS

As at December 31, 2019, the credit instruments approved but not yet disbursed were as follows:

(000s)	**Total**
Residential mortgage loans	**$12,897**
Commercial demand loans	**$7,278**
Commercial mortgage loans	**$21,270**
Lines of credit unfunded	**$300,839**

b) CONTINGENCIES

In the normal course of operations, Alterna Savings becomes involved in various claims and legal proceedings. While the final outcome with respect to claims and legal proceedings pending as at December 31, 2019 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on Alterna Savings' financial position or results of operations.

c) GUARANTEES

Letters of Credit
Arising through the normal course of business, Alterna Savings has guaranteed $21,270,000 representing the maximum potential amount of future payments it would be required to make under the guarantees, in support of commercial loans to members. Letters of credit are issued at the request of members in order to secure their payment or performance obligations to a third party. These guarantees represent an irrevocable obligation of Alterna Savings to pay the third-party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein. In the event of a call on such commitments, Alterna Savings has recourse against the member. Generally, the terms of these guarantees do not exceed one year. The types and amount of collateral security held by Alterna Savings in support of guarantees and letters of credit are the same as is held for loans. As at December 31, 2019, no liability has been recorded on the consolidated balance sheets as no letters of credit have been called upon. In addition, under IFRS 9 no ECL or fair value has been recorded for the guarantees as these are immaterial.

Other Indemnification Agreements
In the normal course of its operations, Alterna Savings provides indemnification agreements to counterparties in certain transactions such as purchase contracts, service agreements and sales of assets. These indemnification agreements require Alterna Savings to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. Alterna Savings also indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their being, or having been, directors or officers. The terms of these indemnification agreements vary based on the contract. The nature of the indemnification agreements prevents Alterna Savings from making a reasonable estimate of the maximum potential amount it could be required to

pay to counterparties. Historically, Alterna Savings has not made any significant payments under such indemnification agreements. No amount has been accrued with respect to these indemnification agreements.

27. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

a) COMPONENTS OF CASH AND CASH EQUIVALENTS

(000s)	31 Dec 2019	31 Dec 2018
Cash on hand	**$25,849**	$24,057
Deposit with other financial institutions	**358,815**	115,577
Marketable securities (original maturities less than 90 days)	**152,511**	24,625
	$537,175	$164,259

b) CASH FLOWS PRESENTED ON A NET BASIS

Cash flows arising from loan advances and repayments, and from member deposits and withdrawals, have been presented on a net basis in the consolidated statements of cash flows.

28. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to directly or indirectly control the other party or exercise significant influence over the other party in making financial or operational decisions. Alterna Savings' related parties include key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by, or for which significant voting power is held by key management personnel or their close family members.

Alterna Savings has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavourable features.

a) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel ("KMP") are those persons having authority and responsibility for planning, directing and controlling the activities of the credit union, directly or indirectly, including any director (whether executive or otherwise) of that entity. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Alterna Savings considers the members of its Board and the members of executive management to constitute KMP for purposes of IAS 24, *Related Party Disclosures*. Executive management includes the President & CEO as well as employees in positions titled Senior Vice-President, Region Head and Vice-President.

(i) Key management personnel compensation
The aggregate compensation of KMP during the year comprising amounts paid or payable or provided for was as follows:

(000s)	31 Dec 2019	31 Dec 2018
Short-term employee benefits	**$4,498**	$3,826
Post-employment benefits	**-**	-
Other long-term employee benefits	**-**	-
Termination benefits	**-**	-
Total KMP compensation	**$4,498**	$3,826

(ii) Loans to KMP
There are no loans that are impaired in relation to the loan balances with KMP. Loans to KMP consist mainly of residential mortgages as well as personal loans and personal lines of credit.

(000s)	31 Dec 2019	31 Dec 2018
(1) Aggregate value of loans outstanding as at consolidated balance sheet dates	**$3,897**	$4,035
(2) Total value of personal lines of credit facilities as at consolidated balance sheet dates	**1,656**	1,808
Less: Amounts drawn down and included in loan values and included in (1)	**(356)**	(467)
Net balance available	**$5,197**	$5,376
Aggregate value of loans disbursed during the year:		
Residential mortgages	**$329**	$944
Personal loans	**908**	254
Total	**$1,237**	$1,198

(iii) Deposits from KMP

(000s)	31 Dec 2019	31 Dec 2018
Total value of demand, term and registered plan deposits from KMP	**$4,006**	$3,041
Total amount of interest paid on deposits to KMP	**$46**	$40

b) OTHER RESTRICTED PARTY DISCLOSURES

Alterna Savings also employs the definition of restricted party contained in section 75 of Regulation 237/09 of the Act. A restricted party includes a person who is, or has been within the preceding 12 months, a director, officer, or any corporation in which the person owns more than 10% of the voting shares, their spouse, their dependent relatives who live in the same household as the person, and any corporation controlled by such spouse or dependent relative.

(i) Loans
Loans to officers consist mainly of residential mortgages offered at preferred rates as well as personal loans and personal lines of credit at market rates less a discount based on the type and risk of the loan. Loans to other restricted parties are granted under market conditions for similar risks.

At the end of the year, the total amount of loans related to restricted parties, as defined, was approximately $3,897,000 (2018 – $4,035,000). There was approximately $70,000 (2018 – $86,000) in interest earned for the year which, is recorded under interest income on the consolidated statements of income.

(ii) Expenses Relative to the Board of Directors
The Directors of Alterna Savings and Alterna Bank are remunerated at rates to be fixed annually at the beginning of each year by their respective Boards, and are also entitled to be paid their travelling, director training and other expenses properly incurred by them in connection with the affairs of Alterna Savings and Alterna Bank.

During the year, remuneration paid to Directors of Alterna Savings and Alterna Bank amounted to $386,000 (2018 – $388,000) and other expenses incurred totalled $179,000 (2018 – $174,000). As at December 31, 2019, Alterna Savings' Board consisted of 9 Directors (2018 – 9 Directors) and Alterna Bank's Board consisted of 7 Directors (2018 – 7 Directors).

(iii) Executive Compensation
Alterna Savings manages executive compensation in accordance with policies which are reviewed and approved annually by the Board. In accordance with these policies, total cash compensation is targeted to be at the 50th percentile of similar positions in credit unions and banks in geographical markets within which Alterna Savings operates.

In reviewing the executive compensation structure on an annual basis, the Board considers market expectations and projections of changes for comparable positions using, where available, independent, competent and relevant sources.

The Act requires disclosure of the remuneration paid to the five highest-paid officers and employees of the credit union where remuneration paid during the year exceeded $150,000. The individuals and their respective remuneration (salary, bonus, benefits) included Robert Paterson, President and Chief Executive Officer ($500,000, $500,000, $191,000), Bill Boni, SVP and Chief Financial Officer ($320,000, $160,000, $79,000), Mark Cauchi, SVP and Chief Information Officer ($290,000, $116,000, $39,000), José Gallant, SVP and Chief Administrative Officer ($255,000, $102,000, $38,000) and Brian Lawson, SVP, SME and Member Experience, NCR ($198,000, $36,000, $35,000).

All decisions with respect to base pay, annual increases and short-term incentive award (bonus) payments for individuals reporting directly to the President & CEO are reviewed in advance by the Governance Committee of the Board. Further, all decisions with respect to base pay, annual increases and short-term incentive award payments for the President & CEO must receive prior approval by the Board.

29. SELECTED DISCLOSURES

CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

The following table presents an analysis of each asset and liability line item by amounts expected to be recovered or settled within one year or after one year as at December 31, 2019 and 2018.

(000s)	**As at December 31, 2019**			As at December 31, 2018		
	Within 1 Year	**After 1 year**	**Total**	Within 1 Year	After 1 year	Total
Assets						
Cash and cash equivalents	**$ 537,175**	**$ -**	**$ 537,175**	$ 164,259	$ -	$ 164,259
Investments	**64,491**	**354,279**	**418,770**	156	425,521	425,677
Personal loans	**265,993**	**18,180**	**284,173**	266,848	20,702	287,550
Residential mortgages loans	**1,124,249**	**2,292,828**	**3,417,077**	1,002,395	2,285,339	3,287,734
Commercial loans	**610,447**	**742,670**	**1,353,117**	609,123	744,968	1,354,091
Loss allowance	**(4,694)**	**-**	**(4,694)**	(4,462)	-	(4,462)
Property and equipment	**-**	**38,722**	**38,722**	-	15,834	15,834
Intangible assets	**-**	**11,140**	**11,140**	-	11,746	11,746
Derivative financial instruments	**4,756**	**1,415**	**6,171**	1,689	1,350	3,039
Income tax receivable	**2,367**	**-**	**2,367**	-	-	-
Deferred income tax asset	**-**	**-**	**-**	-	729	729
Other assets	**81,438**	**-**	**81,438**	62,120	-	62,120
Total assets	**$ 2,686,222**	**$ 3,459,234**	**$ 6,145,456**	$ 2,102,128	$ 3,506,189	$ 5,608,317
Liabilities						
Demand deposits	**$ 2,187,409**	**$ -**	**$ 2,187,409**	$ 1,949,695	$ -	$ 1,949,695
Term deposits	**1,040,628**	**325,047**	**1,365,675**	1,178,719	220,322	1,399,041
Registered plans	**772,859**	**275,855**	**1,048,714**	609,026	354,928	963,954
Borrowings	**303,671**	**-**	**303,671**	252,010	-	252,010
Mortgage securitization liabilities	**23,567**	**748,146**	**771,713**	49,293	620,408	669,701
Derivative financial instruments	**3,019**	**1,076**	**4,095**	5,560	1,532	7,092
Income tax payable	**-**	**-**	**-**	2,418	-	2,418
Deferred income tax liability	**-**	**338**	**338**	-	-	-
Other liabilities	**70,418**	**-**	**70,418**	41,287	-	41,287
Membership shares	**-**	**1,804**	**1,804**	-	1,919	1,919
Total liabilities	**$ 4,401,571**	**$ 1,352,266**	**$ 5,753,837**	$ 4,088,008	$ 1,199,109	$ 5,287,117
Net	**$ (1,715,349)**	**$ 2,106,968**	**$ 391,619**	$ (1,985,880)	$ 2,307,080	$ 321,200

30. EVENTS AFTER THE CONSOLIDATED BALANCE SHEET DATE

There have been no events subsequent to the consolidated balance sheet date that would have a material effect on the Alterna Savings consolidated financial statements as at December 31, 2019.