Consolidated Financial Statements of

ALTERNA SAVINGS

December 31, 2011

INDEPENDENT AUDITORS' REPORT

To the Members of
Alterna Savings and Credit Union Limited:

We have audited the accompanying consolidated financial statements of Alterna Savings and Credit Union Limited ("Alterna Savings"), which comprise the balance sheet as at December 31, 2011 and 2010, and January 1, 2010, and the statements of comprehensive income, changes in members' equity and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alterna Savings as at December 31, 2011, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Ottawa, Canada
March 15, 2012

ALTERNA SAVINGS
Consolidated Balance Sheet (in thousands of dollars)
December 31, 2011

	Note		31-Dec-11		31-Dec-10		01-Jan-10
					Note 3		Note 3
ASSETS							
Cash and cash equivalents		**$**	**60,852**	$	81,933	$	166,222
Investments	4		**235,682**		229,539		160,384
Loans, net of allowance for impaired loans	6, 7		**1,965,294**		1,867,763		1,802,129
Property and equipment	8		**11,701**		10,898		9,736
Intangible assets	9		**2,985**		3,858		5,726
Derivative financial instruments	25		**5,904**		7,300		8,736
Income tax receivable			**516**		-		939
Deferred income tax asset	22		**1,830**		1,916		1,179
Other assets	10		**9,171**		9,252		6,979
		$	**2,293,935**	$	2,212,459	$	2,162,030
LIABILITIES AND MEMBERS' EQUITY							
Liabilities:							
Deposits	11	**$**	**2,081,029**	$	1,997,139	$	1,904,609
Borrowings	12		**46,136**		53,261		102,881
Derivative financial instruments	25		**1,716**		3,503		4,732
Income tax payable			**-**		1,578		-
Deferred income tax liability	22		**-**		25		-
Other liabilities	13		**35,700**		33,217		31,600
Membership shares	15		**1,554**		1,578		1,779
		$	**2,166,135**	$	2,090,301	$	2,045,601
Members' equity:							
Special shares	15		**24,059**		23,960		24,019
Contributed surplus	16		**19,282**		19,282		19,282
Retained earnings			**86,539**		82,391		77,551
Accumulated other comprehensive loss			**(2,080)**		(3,475)		(4,423)
			127,800		122,158		116,429
		$	**2,293,935**	$	2,212,459	$	2,162,030

On behalf of the Board:

Johanne Charbonneau
Director

Kevin Lindsey
Director

(See accompanying notes to the consolidated financial statements)

ALTERNA SAVINGS
Consolidated Statement of Income (in thousands of dollars)
December 31, 2011

	Note	31-Dec-11	31-Dec-10
			Note 3
Interest income	17	**$ 92,400**	$ 93,008
Investment income	19	**6,059**	3,096
		98,459	96,104
Interest expense	17	**33,861**	35,372
Net interest income		**64,598**	60,732
Loan costs		**613**	1,221
		63,985	59,511
Other income	18	**11,379**	12,678
		75,364	72,189
Operating expenses	20	**66,969**	62,611
Operating income		**8,395**	9,578
Unrealized losses on financial instruments		**(2,036)**	(2,007)
Income before income taxes		**6,359**	7,571
Provision for income taxes	22		
Current		**927**	2,642
Deferred		**312**	(960)
		1,239	1,682
Net income		**$ 5,120**	$ 5,889

(See accompanying notes to the consolidated financial statements)

ALTERNA SAVINGS
Consolidated Statement of Comprehensive Income (in thousands of dollars)
December 31, 2011

	31-Dec-11	31-Dec-10
Net income	**$ 5,120**	$ 5,889
Other comprehensive income, net of tax:		
Change in unrealized gains and losses on available-for-sale securities [1]	**2,468**	(1,287)
Change in gains and losses on derivatives designated as cash flow hedges [2]	**2,284**	1,517
Net losses on derivatives designated as cash flow hedges transferred to net income [3]	**(40)**	954
Defined benefit plan - actuarial losses [4]	**(3,317)**	(236)
	1,395	948
Comprehensive income	**$ 6,515**	$ 6,837

[1] Net of income tax expense of $390 (2010 - recovery of $200)
[2] Net of income tax expense of $408 (2010 - expense of $290)
[3] Net of income tax recovery of $7 (2010 - expense of $72)
[4] Net of income tax recovery of $616 (2010 - recovery of $36)

(See accompanying notes to the consolidated financial statements)

ALTERNA SAVINGS
Consolidated Statement of Changes in Members' Equity (in thousands of dollars)
December 31, 2011

	31-Dec-11	31-Dec-10
Special shares:		
Balance, beginning of year	**$ 23,960**	$ 24,019
Net shares issued (redeemed)	**99**	(59)
Balance, end of year	**24,059**	23,960
Contributed surplus:		
Balance, beginning of year	**19,282**	19,282
Balance, end of year	**19,282**	19,282
Retained earnings, net of tax:		
Balance at beginning of year, as previously reported	**82,391**	89,149
Transitional adjustment on adoption of new accounting policies (IFRS)	**-**	(11,598)
Balance at beginning of year, as restated	**82,391**	77,551
Net income	**5,120**	5,889
Dividend on special shares	**(972)**	(1,049)
Balance, end of year	**86,539**	82,391
Accumulated other comprehensive income (loss), net of tax:		
Balance at beginning of year	**(3,475)**	(4,423)
Other comprehensive income (loss)	**1,395**	948
Balance, end of year	**(2,080)**	(3,475)
Members' equity	**$ 127,800**	$ 122,158

(See accompanying notes to the consolidated financial statements)

ALTERNA SAVINGS
Consolidated Statement of Cash Flows (in thousands of dollars)
December 31, 2011

	31-Dec-11	31-Dec-10
Operating activities:		
Net income	**$ 5,120**	$ 5,889
Add (deduct) non-cash items:		
Allowance for impaired loans	**88**	728
Depreciation and amortization of		
Property and equipment	**2,459**	2,611
Intangibles	**2,049**	2,091
Deferred charges	**104**	-
(Gain) loss on		
Disposal of intangible assets	**-**	88
Sale of investments	**(1,248)**	-
Decrease (increase) in assets		
Fair value of investments	**4,136**	(3,490)
Interest receivable	**(700)**	(848)
Deferred income taxes	**(188)**	(851)
Loans, net of allowance for impaired loans	**(96,955)**	(65,739)
Assets relating to derivative financial instruments	**4,039**	5,206
Increase (decrease) in liabilities		
Interest payable	**(311)**	(966)
Deposits	**83,891**	92,531
Liabilities relating to derivative financial instruments	**(1,862)**	(1,230)
Other items, net	**(2,342)**	(202)
Cash provided by (used in) operating activities	**$ (1,720)**	$ 35,818
Investing activities:		
Proceeds from maturity and sale of investments	**85,060**	135,729
Purchase of investments	**(91,100)**	(202,878)
Acquisition of property and equipment	**(3,271)**	(1,184)
Acquisition of intangible assets	**(1,177)**	(310)
Cash used in investing activities	**$ (10,488)**	$ (68,643)
Financing activities:		
Net increase (decrease) in		
Membership shares	**(23)**	(201)
Special shares	**99**	(59)
Borrowings	**(7,126)**	(49,620)
Capital lease obligations	**(851)**	(535)
Dividend on special shares	**(972)**	(1,049)
Cash applied to financing activities	**$ (8,873)**	$ (51,464)
Decrease in cash and cash equivalents during the period	**(21,081)**	(84,289)
Cash and cash equivalents, beginning of period	**81,933**	166,222
Cash and cash equivalents, end of period	**$ 60,852**	$ 81,933
Supplemental information:		
Interest paid	**$ 34,172**	$ 36,338
Interest received	**$ 93,100**	$ 93,856
Dividend received	**$ 138**	$ 252
Income taxes paid	**$ 3,329**	$ 568
Property and equipment acquired through capital leases	**$ 393**	$ 2,589

(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"). Qualifying member deposits are insured by the Deposit Insurance Corporation of Ontario ("DICO"). Alterna Savings is the ultimate parent.

The registered office address of Alterna Savings is 400 Albert Street, Ottawa, Ontario, K1R 5B2. 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 throughout Ontario and Quebec.

The consolidated financial statements for the year ended December 31, 2011 were authorized for issue in accordance with a resolution of the Board of Directors on March 15, 2012. The Board of Directors have the power to amend the financial statements after issuance only in the case of 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") and adopted by the Accounting Standards Board ("AcSB") of Canada. These consolidated financial statements include disclosure for the first-time adoption of IFRS including a reconciliation from previously applied Canadian Generally Accepted Accounting Principles ("CGAAP").

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

Financial assets and liabilities are offset, with the net amount reported in the consolidated balance sheet, 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 available-for-sale investments, derivative financial instruments and financial assets and financial liabilities held at fair value through profit or loss, that 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) First-time application of IFRS
Until December 31, 2010 Alterna Savings prepared its consolidated financial statements in accordance with CGAAP. Alterna Savings followed the provisions of IFRS 1, "First Time Adoption of IFRS", in preparing its opening IFRS consolidated balance sheet as of the date of transition, January 1, 2010. Certain of Alterna Savings' IFRS accounting policies used for the opening consolidated balance sheet differed from its CGAAP policies applied at the same date. Therefore, as required by IFRS 1, the resulting adjustments required to the opening consolidated balance sheet were recognized directly through retained earnings as of January 1, 2010. This is the effect of the general rule of IFRS 1, which is to apply IFRS retrospectively. There are some exceptions required and some exceptions permitted by IFRS 1, due to full retrospective application of IFRS. Alterna Savings' first time adoption decisions regarding these exceptions

are detailed below. Other options available under IFRS 1, which are not discussed here, are not material to Alterna Savings.

(ii) Business combinations
Alterna Savings elected not to apply IFRS 3, "Business Combinations", retrospectively to business combinations prior to the date of transition but elected to continue with the carrying balances of assets and liabilities at transition to IFRS.

(iii) Deemed cost
At transition, Alterna Savings took the carrying values of all items of property and equipment on the date of transition under CGAAP as their deemed cost, which is cost less accumulated depreciation.

(iv) Employee Benefits
At transition, Alterna Savings recognized all cumulative actuarial gains and losses on its defined pension and benefit plans in retained earnings. Consequently there are no unamortized cumulative actuarial gains and losses which would impact the amortization of actuarial gains and losses for current and future periods.

(v) Redesignation of previously recognized financial instruments
At transition, Alterna Savings designated certain of its previously recognized financial assets and liabilities at either fair value through profit or loss or as available-for-sale, as appropriate, under the provisions of IAS 39, "Financial Instruments: Recognition and Measurement".

(vi) Fair value measurement of financial assets or financial liabilities at initial recognition
Alterna Savings elected to apply provisions of IAS 39, "Financial Instruments: Recognition and Measurement", which require deferral of trade date profit on financial instruments carried at fair value at initial recognition, where the amount is derived from unobservable parameters or prices consistent with CGAAP.

(vii) Effect of the transition to IFRS
Reconciliations of Alterna Savings' consolidated balance sheets prepared under CGAAP and IFRS as of January 1, 2010 and December 31, 2010 are presented in note 3. A reconciliation of Alterna Savings' consolidated statement of comprehensive income for the year ended December 31, 2010 prepared in accordance with CGAAP and IFRS, have also been presented in note 3.

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 results of operations of Alterna Bank from the date on which Alterna Savings obtained control of Alterna Bank, which coincided with Alterna Bank's incorporation. The financial statements of Alterna Bank have been prepared for the same reporting year as Alterna Savings, using consistent accounting policies. All significant intercompany balances and transactions have been eliminated on consolidation.

c) 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.

d) DETERMINATION OF FAIR VALUE:

The fair value for financial instruments traded in active markets at the balance sheet date 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.

e) FINANCIAL INSTRUMENTS:

At initial recognition, all financial assets and liabilities are required to be classified based on management's intention as fair value through profit and loss ("FVTPL"), available-for-sale ("AFS"), held-to-maturity ("HTM"), loans and receivables or other financial liabilities. In addition, the standards require that all financial instruments, including all derivatives, be measured at fair value with the exception of loans and receivables, HTM assets, other financial liabilities, AFS equities and derivatives linked to equity instruments that do not have quoted market values in an active market. The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are generally based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are estimated using valuation techniques and models.

Transaction costs related to FVTPL are expensed as incurred. Transaction costs related to AFS and HTM securities and fees and costs related to loans and receivables are capitalized and amortized over the expected life of the instrument using the effective interest rate method. Settlement date accounting is used for all securities.

(i) Fair value through profit or loss (FVTPL)
Financial instruments designated as FVTPL are financial assets and liabilities held for trading activities and are measured at fair value at the balance sheet date. Gains and losses realized on disposition are reported in investment income while unrealized gains and losses from market fluctuations are disclosed separately.

(ii) Available-for-sale (AFS)
AFS financial assets are those non-derivative financial assets that are designated as AFS, or that are not classified as loans and receivables, HTM or FVTPL. Financial assets classified as AFS are carried at fair value with the changes in fair value reported in accumulated other comprehensive income ("AOCI"), until sale or other-than-temporary impairment at which time the cumulative gain or loss is transferred to the consolidated statement of income. For financial assets classified as AFS, changes in carrying amounts relating to changes in foreign exchange rate are recognized in the consolidated statement of income and other changes in carrying amount are recognized in AOCI as indicated above.

Equities that do not have quoted market values in an active market are carried at cost and cannot be reliably measured. Realized gains and losses on sale as well as interest and dividend income from these securities are included in investment income.

(iii) Held-to-maturity (HTM)
Financial assets classified as HTM are non-derivative financial assets with fixed or determinable payments and fixed maturities, other than loans or receivables that an entity has the positive intention and ability to hold to maturity. These financial assets are accounted for at amortized cost. The amortization is included in investment income in the consolidated statement of income. The losses arising from impairment of such investments are recognized in the consolidated statement of income as impairment losses.

Alterna Savings has not designated any financial assets as HTM.

(iv) Loans and receivables
Financial assets classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market except those that are classified as AFS or designated as FVTPL. Loans and receivables are initially recognized at fair value plus directly related transaction costs. They are subsequently measured at amortized cost using the effective interest rate method less any impairment losses.

(v) Other financial liabilities
Financial liabilities, other than derivative financial instruments, are recorded at amortized cost using the effective interest rate method.

(vi) Day 1 profit or loss
When the transaction price is different from the fair value from other observable current market transactions for the same instrument or based on a valuation technique whose variables include only data from observable markets, Alterna Savings immediately recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in investment income. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable, or when the instrument is derecognized.

f) IMPAIRMENT OF FINANCIAL ASSETS:

At each balance sheet date, Alterna Savings assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is:

- objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the balance sheet date ('a loss event');
- the loss event had an impact on the estimated future cash flows of the financial asset or group of financial assets; and
- a reliable estimate of the amount can be made.

A loss event may include indications that the borrower or a group of borrowers is experiencing significant difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Loans and loan impairment
Personal loans, residential mortgage loans and commercial loans are recorded at amortized costs less an allowance for impaired loans.

Alterna Savings establishes and maintains an allowance for impaired loans that is considered the best estimate of probable credit-related losses existing in its loan portfolio giving due regard to current conditions. The allowance includes both individual and collective provisions, reviewed on a regular basis by management. The allowance is increased by provisions for impaired loans which are charged to earnings and reduced by write-offs, net of recoveries.

Alterna Savings first assesses whether objective evidence of impairment exists individually for loans that are individually significant. It then assesses collectively for loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment under the individual assessment.

Individual allowance - To allow management to determine whether a loss event has occurred on an individual basis, all significant counterparty relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or a breach of contract, for example, default or delinquency in interest or principal payments. If there is evidence of impairment leading to an impairment loss for an individual counterparty relationship, then the amount of the loss is determined as the difference between the carrying amount of the loan, including accrued interest, and the present value of expected future cash flows discounted at the loan's original effective interest rate, including cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The carrying amount of the loan is reduced by the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income as a component of loan costs.

Collective allowance - The collective assessment of impairment is principally to establish an allowance amount relating to loans that are either individually significant but for which there is no objective evidence of impairment, or are not individually significant, but for which there is, on a portfolio basis, a loss amount that is probable of having occurred and is reasonably estimable. The loans are grouped according to similar credit risk characteristics and the allowance for each group is determined using statistical models based on historical experience.

Bad debt written off - When it is considered that there is no realistic prospect of recovery 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 statement of income as a component of loan costs.

Reversal of impairment losses - If in a subsequent period the amount of a previously recognized impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the impairment loss is reversed by reducing the allowance account accordingly. Such reversal is recognized in the consolidated statement 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 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 which 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 provision for loan losses, bad debt written off and collection costs.

Restructured loans – Restructured loans are loans where the original contractual terms have been modified to provide for concessions of interest, principal or repayment for reasons related to financial difficulties experienced by the member or group of members. Alterna Savings restructures loans, depending on the situation, rather than taking possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management regularly reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(ii) Impairment of financial assets classified as available-for-sale
For financial assets classified as AFS, Alterna Savings assesses at each balance sheet date whether there is objective evidence that an asset or group of assets is impaired.

In the case of equity investments classified as AFS, objective evidence would include either a significant or a prolonged decline in the fair value of the investment below cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. In the case of debt securities classified as AFS, impairment is assessed based on the same criteria as for loans.

Where there is evidence of impairment, the cumulative unrealized loss previously recognized in other comprehensive income ("OCI") is removed from OCI and recognized in the consolidated statement of income for the period. This amount is determined as the difference between the acquisition cost (net of any principal repayments and amortization) and current fair value of the asset less any impairment loss on that investment previously recognized in the consolidated statement of income. Impairment losses on equity investments classified as AFS are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognized in OCI.

Reversals of impairment of debt securities are recognized in the consolidated statement of income if the recovery is objectively related to a specific event occurring after the impairment loss were recognized in the consolidated statement of income.

(iii) Financial guarantees
In the ordinary course of business, Alterna Savings issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are recognized initially in the consolidated financial statements at fair value on the date the guarantee is given. Subsequent to initial recognition, Alterna Savings' liability under such guarantees is measured at the higher of the amount initially recognized, less cumulative amortization, and the best estimate of the expenditure required to settle any financial obligation as of the balance sheet date.

Any increase in the liability relating to guarantees is recorded in the consolidated statement of income in administration costs under operating expenses.

g) DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES:

(i) Financial assets
A financial asset (or, where applicable, a part of a financial asset or 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, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred 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 statement of income.

(iii) Mortgage sales
Alterna Savings may from time to time sell a portion of its residential and commercial mortgage loan portfolio to diversify its funding sources and enhance its liquidity position. These transactions are accounted for in accordance with IAS 39, "Financial Instruments: Recognition and Measurement" and as such are derecognized from the consolidated balance sheet when the transaction meets the derecognition criteria. When this occurs, the related loans are derecognized. Gains or losses on these transactions are reported as other income on the consolidated statement of income. When this does not occur, they are all treated as secured loan financings.

h) DERIVATIVES AND HEDGING:

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 sheet.

Gains and losses arising from changes in the fair value of a derivative are recognized as they arise in the consolidated statement of income unless the derivative is the hedging instrument in a qualifying hedge (see "Hedge Accounting" below).

(i) Embedded derivatives
Derivatives may be embedded in other financial instruments. 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 statement of income. The only embedded derivatives are the options embedded in Alterna Savings' indexed term deposits offered to members (note 25b) which are carried at amortized cost.

(ii) Hedge accounting
Alterna Savings uses derivative financial instruments such as swaps and options in its management of interest rate exposure. Derivative financial instruments are not used for trading or speculative purposes. Alterna Savings applies hedge accounting for derivative financial instruments that meet the criteria specified in IAS 39, "Financial Instruments: Recognition and Measurement". 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 the risk from variable cash flows by converting certain variable rate financial instruments to fixed rate financial instruments. The effective portion of the change in fair value of the derivative instrument is offset through OCI as discussed below until the variability in cash flows being hedged is recognized in earnings 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 statement of income.

i) 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 balance sheet date; income and expenses are translated at the annual average rate. Foreign currency exchange gains and losses are recognized in other income during the year.

j) 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 as follows:

Buildings	10 years
Furniture and equipment	5 to 10 years
Computer hardware	3 to 7 years
Leasehold improvements	Term of lease plus one option period

Depreciation of property and equipment is included in administration and occupancy costs. Maintenance and repairs are also charged to administration and occupancy costs.

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 is 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 statement of income in the year the asset is derecognized.

k) INTANGIBLE ASSETS:

An intangible asset is recognized if, and only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

Intangible assets with an indefinite life are not amortized but are subjected to an impairment review at least annually, and, if impaired, are written down to recoverable amount. The impairment review is based on a comparison of the intangible asset's carrying value with its fair value.

Intangible assets with a definite life are amortized on a straight-line basis over the estimated useful lives of the assets as follows:

Computer software	3 to 7 years

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.

l) EMPLOYEE BENEFIT PLANS:

Alterna Savings maintains three pension plans for current employees and retirees, and one post-retirement benefits program. The pension plans consist of a Defined Benefit Plan ("DB"), a Supplementary Retirement Income Plan ("SRIP"), and a Defined Contribution Plan ("DC").

Full actuarial valuations of Alterna Savings' DB, SRIP and post-retirement benefits program are carried out not less than every three years when circumstances permit. 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 program, plan assets are valued at fair values. Benefits costs and accrued benefits are determined based upon actuarial valuations using the projected benefit method prorated on service and management's best estimates. The expected return on plan assets is based on the fair value of plan assets.

The recognition of actuarial gains and losses is applied by using the immediate recognition in equity (i.e., OCI) approach under IAS 19, "Employee Benefits".

(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' defined contribution plan are held in independently-administered funds.

m) 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 enacted or substantively enacted by the balance sheet date.

(ii) Deferred income tax
Deferred income tax is provided on temporary differences at the balance sheet date 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 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 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 balance sheet date.

Current tax and deferred income tax relating to items recognized directly in equity are also recognized in equity and not in the consolidated statement 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.

n) LEASING:

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 which 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 statement 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 sheet 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 sheet 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.

o) 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 statement of income for all interest-bearing financial instruments, except for those designated as FVTPL, using the effective interest method. The effective interest rate is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or expense over the relevant period using the estimated future cash flows. 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.

When a loan is classified as impaired as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(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.

p) 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) Going concern
Management has made an assessment of Alterna Savings' ability to continue as a going concern and is satisfied that Alterna Savings has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Alterna Savings' ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

(ii) Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the consolidated balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more detail in note 23.

(iii) Impairment losses on loans and advances
Alterna Savings reviews its individually significant loans and advances at each balance sheet date to assess whether an impairment loss should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, Alterna Savings makes judgments about the borrower's financial situation and the net

realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but of which effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios, etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices and the performance of different individual groups).

The impairment loss on loans and advances is disclosed in more detail in note 7.

(iv) Impairment of available-for-sale investments
Alterna Savings reviews its securities designated as AFS investments at each balance sheet date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

Alterna Savings also records impairment charges on AFS equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is ‘significant’ or ‘prolonged’ requires judgment. In making this judgment, Alterna Savings evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

(v) 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. Judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

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, 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of Alterna Savings, except for IFRS 12 “Disclosure of interests in other entities” and IFRS 13 “Fair value measurement” which become mandatory for Alterna Savings’ 2013 consolidated financial statements and are expected to impact the classification and measurement of financial assets. Alterna Savings does not plan to adopt these standards early and the extent of the impact has not been determined.

3. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

a) RECONCILIATIONS OF EQUITY AND STATEMENT OF INCOME:

Until December 31, 2010, Alterna Savings prepared its consolidated financial statements in accordance with CGAAP. This is the first time Alterna Savings has prepared its consolidated financial statements using IFRS.

The following table sets out, by accounting topic, the main differences between Alterna Savings’ CGAAP accounting policies previously applied in the financial statements prior to January 1, 2010 and the IFRS accounting policies adopted at January 1, 2010:

CGAAP	IFRS
CONSOLIDATION	
Three models are used to assess consolidation status: voting rights, variable interest entities (VIE) and qualifying special purpose entities (QSPE).	Ownership of the majority of voting rights, either directly or indirectly, leads to consolidation.
Voting rights: ownership of a majority voting interest, directly or indirectly, of voting shares leads to consolidation.	The concept of risk and reward applies, when the existence of control is not apparent.
VIE: VIEs are consolidated by the interest holder that is exposed to the majority of the entity's expected losses or residual returns, that is, the primary beneficiary.	A SPE is consolidated by an entity where it is deemed to control it. Indicators of control include the SPE conducting activities on behalf of the entity and/or entity holding the majority or the risks and rewards of the SPE.
QSPE: a special purpose entity (SPE) that qualifies as a QSPE is not consolidated.	There is no concept of a QSPE under IFRS.
TRANSACTION COSTS	
An entity can choose between accounting policy options of expensing and capitalizing transaction costs (e.g., brokerage, incentive, legal and appraisal fees) relating to all financial instruments other than those classified as HFT.	Transaction costs are added to the carrying value of financial instruments other than instruments designated as FVTPL.
Under CGAAP, Alterna Savings expensed the legal fees and appraisal fees paid on behalf of the members as incurred in accordance with AcG-4 of CGAAP.	Under IFRS, Alterna Savings' loan origination fees that are directly attributable and incremental to the origination of a loan are deferred and amortized.
FAIR VALUE OPTION	
Fair value option with unrealized gains and losses recognized in earnings is available for financial assets and liabilities under CICA S.3855 except for financial instruments: • Where fair value cannot be reliably measured • Transferred in a related party transaction and was not classified as held-for-trading before the transaction.	Financial assets and financial liabilities may be designated as FVTPL on initial recognition/on transition to IFRS where: • It eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch); • They are managed and their performance is evaluated on a fair value basis.
Transaction costs in relation to financial assets and financial liabilities designated as held-for-trading are recognized in the consolidated statement of income upon initial recognition.	Transactions costs in relation to financial assets and financial liabilities designated as FVTPL are recognized in the consolidated statement of income upon initial recognition.
LOANS HELD FOR SALE RECLASSIFIED TO TRADING	
An entity can choose but is not required to reclassify the loans that are held for resale into held-for-trading.	Loans with the intention to sell or securitize in the near term are classified as FVTPL.
There is no equivalent guideline in CGAAP regarding reclassification of loan to AFS category.	Loans where the entity may not be able to recover substantially all the initial investment must be classified as AFS.

FINANCIAL ASSETS CLASSIFIED AS AVAILABLE–FOR-SALE	
Impairment losses cannot be reversed regardless of whether the instrument is debt or equity. Foreign exchange gains or losses are recorded in OCI.	Impairments on debt instruments classified as AFS should be reversed if, in a subsequent period, the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income. Impairment losses on equity instruments are not reversible. Foreign exchange gains or losses are recorded in the consolidated statement of income.
FINANCIAL ASSET DERECOGNITION	
Financial assets are derecognized based on control. Risks and rewards are not a direct factor in determining financial asset derecognition.	Derecognition is based on risks and rewards. Control is only considered when substantially all risks and rewards have been neither transferred nor retained. A partial derecognition of transferred financial assets may occur where an entity has a continuing involvement in them.
SECURITIZATION TRANSACTIONS	
A transfer is recognized as a sale when the transferor surrenders control over receivables and receivables are derecognized. The transfer of assets to a qualifying special purpose entity (QSPE) is not consolidated.	IFRS focuses on substance over form. The main focus is on transfer of risks and rewards first and control second determining transfers as a sale in order for derecognition of a financial asset. The concept of a QSPE does not exist in IFRS.
IMPAIRMENT ALLOWANCE	
INDIVIDUAL ALLOWANCE: CGAAP (S3025) requires an assessment of individual loans before conducting a portfolio assessment of impairment. However, under CGAAP any loans assessed individually and determined not to be impaired are not included in the collective assessment. COLLECTIVE ALLOWANCE: CGAAP requires a general provision as an additional impairment that cannot be identified on a loan-by-loan basis which is estimated collectively for the group (S3025).	IFRS requires assessing loans that are individually significant, and individually or collectively those that are not individually significant. When it is determined that no objective evidence of impairment exists for an individually assessed loan that loan is required to be evaluated on a collective basis. IFRS does not allow a general provision but it requires a portfolio based collective allowance if no objective evidence of impairment exists for an individually assessed loan. The collective allowance encompasses impairment losses for the incurred but not reported (IBNR) losses.

EMPLOYEE BENEFIT PLANS	
ACCUMULATED ACTUARIAL GAINS AND LOSSES: refer to IFRS comment	On transition Alterna Savings recognized all cumulative actuarial losses in members' equity in accordance with the transitional provisions of IFRS 1.
RECOGNITION OF ACTUARIAL GAINS AND LOSSES: CGAAP allows two methods for recognizing actuarial gains and losses, which are the corridor approach or immediate recognition in profit and loss. Alterna Savings followed the corridor approach for recognizing actuarial gains and losses under CGAAP.	IAS 19, "Employee Benefits" describes three permissible methods for recognizing actuarial gains and losses which are the corridor approach, immediate recognition in profit and loss or immediate recognition in OCI. On transition to IFRS, Alterna Savings adopted the immediate recognition in OCI approach for recognition of actuarial gains and losses.
PROPERTY AND EQUIPMENT	
Property and equipment is recorded using the cost model.	Property and equipment may be recorded using either the cost model or the revaluation (fair value) model. Alterna Savings adopted the cost model on transition to IFRS.
Reversal of impairment loss, on subsequent recovery, is prohibited.	Reversal of impairment loss, on subsequent recovery, is allowed for assets other than goodwill.
The notion of componentization is recognized but its application is not required.	There is a specific requirement to depreciate major parts of an asset separately.
DEFERRED INCOME TAXES	
The terminology used in CGAAP is "future income tax".	The terminology used under IFRS is "deferred income tax".
Some future income tax is presented as current asset or liability.	All amounts of deferred income tax are presented as non-current.
RECOGNITION OF OTHER GAINS AND LOSSES	
EXTRAORDINARY GAINS/(LOSSES): Unusual and infrequent items can be presented at the bottom of the consolidated statement of income, net of tax as extraordinary gains or losses. This presentation shows it is a part of income but is dissociated from normal operation.	IFRS prohibits the use of extraordinary items either on the face of the consolidated statement of income or in notes. Such items are not dissociated from normal operations.
FINANCIAL INSTRUMENTS: Foreign exchange gains and losses relating to both monetary and non monetary AFS instruments are recognized in OCI.	Foreign exchange gains and losses relating to monetary and non monetary AFS instruments are recognized in the consolidated statement of income and OCI respectively.

The following tables and accompanying notes summarise the effect of transition from previous CGAAP to IFRS on Alterna Savings' consolidated balance sheet, statement of income and statement of cash flows at transition (Jan 1, 2010) and at the end of the previous financial year.

(i) Reconciliation of consolidated balance sheet as at January 1, 2010 (in thousands of dollars)

	Note	Canadian GAAP as at Jan 1, 2010	Adjustments	IFRS as at Jan 1, 2010
ASSETS				
Cash and cash equivalents		$ 166,222	$ -	$ 166,222
Investments	(vi)-(2)	165,393	(5,009)	160,384
Loans, net of allowance for impaired loans	(i), (iv), (vi)-(1)	1,727,649	74,480	1,802,129
Property and equipment		9,736	-	9,736
Intangible assets	(viii)	5,926	(200)	5,726
Derivative financial instruments		8,736	-	8,736
Income tax receivable	(ii)	-	939	939
Deferred income tax asset	(v)	-	1,179	1,179
Other assets	(i), (ii), (iii), (vi)	15,557	(8,578)	6,979
		$ 2,099,219	$ 62,811	$ 2,162,030
LIABILITIES AND MEMBERS' EQUITY				
Liabilities:				
Deposits		$ 1,904,609	$ -	$ 1,904,609
Borrowings	(vi)-(1)	30,000	72,881	102,881
Deferred income tax liability	(v)	719	(719)	-
Derivative financial instruments		4,732	-	4,732
Other liabilities	(iii), (vi)-(3)	29,016	2,584	31,600
Membership shares		1,779	-	1,779
		$ 1,970,855	$ 74,746	$ 2,045,601
Members' equity:				
Special shares		24,019	-	24,019
Contributed surplus		19,282	-	19,282
Retained earnings	(i), (iii), (iv), (v), (vi), (viii)	89,148	(11,597)	77,551
Accumulated other comprehensive income	(iii), (vi)-(4), (vii)	(4,085)	(338)	(4,423)
		$ 128,364	$ (11,935)	$ 116,429
		$ 2,099,219	$ 62,811	$ 2,162,030

(ii) Reconciliation of consolidated balance sheet as at December 31, 2010 (in thousands of dollars)

	Note	Canadian GAAP as at Dec 31, 2010	Adjustments	IFRS as at Dec 31, 2010
ASSETS				
Cash and cash equivalents		$ 81,933	$ -	$ 81,933
Investments	(vi)-(2)	232,560	(3,021)	229,539
Loans, net of allowance for impaired loans	(i), (iv), (vi)-(1)	1,812,897	54,866	1,867,763
Property and equipment		10,898	-	10,898
Intangible assets	(viii)	4,058	(200)	3,858
Derivative financial instruments		7,300	-	7,300
Deferred income tax asset	(v)	121	1,795	1,916
Other assets	(i), (iii)	17,751	(8,499)	9,252
		$ 2,167,518	$ 44,941	$ 2,212,459
LIABILITIES AND MEMBERS' EQUITY				
Liabilities:				
Deposits		$ 1,997,139	$ -	$ 1,997,139
Borrowings	(vi)	-	53,261	53,261
Income tax payable	(ii)	-	1,578	1,578
Deferred income tax liability	(v)	-	25	25
Derivative financial instruments		3,503	-	3,503
Other liabilities	(iii), (vi)-(3)	32,524	693	33,217
Membership shares		1,578	-	1,578
		$ 2,034,744	$ 55,557	$ 2,090,301
Members' equity:				
Special shares		23,960	-	23,960
Contributed surplus		19,282	-	19,282
Retained earnings	(i), (iii), (iv), (v), (vi)	92,525	(10,134)	82,391
Accumulated other comprehensive income	(iii), (vi)-(4), (vii)	(2,993)	(482)	(3,475)
		$ 132,774	$ (10,616)	$ 122,158
		$ 2,167,518	$ 44,941	$ 2,212,459

(iii) Reconciliation of consolidated statement of comprehensive income for the year ended December 31, 2010 (in thousands of dollars)

	Note	Canadian GAAP as at Dec 31, 2010	Adjustments	IFRS as at Dec 31, 2010
Interest income	(vi)	$ 89,880	$ 3,128	$ 93,008
Investment income	(vi)	3,211	(115)	3,096
		93,091	3,013	96,104
Interest expense	(vi)	34,482	890	35,372
Net interest income		58,609	2,123	60,732
Loan costs	(iv)	1,313	(92)	1,221
		57,296	2,215	59,511
Other income	(vi)	12,852	(174)	12,678
		70,148	2,041	72,189
Operating expenses	(iii), (vi)	62,542	69	62,611
Operating income		7,606	1,972	9,578
Unrealized losses on financial instruments	(vi), (vii)	(1,702)	(305)	(2,007)
Income before income taxes		5,904	1,667	7,571
Provision for income taxes:				
Current		2,642	-	2,642
Deferred	(v)	(1,164)	204	(960)
		1,478	204	1,682
Net income		$ 4,426	$ 1,463	$ 5,889
Other comprehensive (loss) income, net of tax:				
Change in unrealized gains and losses on available-for-sale securities		(1,312)	25	(1,287)
Change in gains and losses on derivatives designated as cash flow hedges		1,935	(418)	1,517
Net losses on derivatives designated as cash flow hedges transferred to net income		469	485	954
Defined benefit plan - actuarial gains/(losses)		-	(236)	(236)
		1,092	(144)	948
Comprehensive income		$ 5,518	$ 1,319	$ 6,837

b) NOTES TO THE RECONCILIATIONS:

(i) Transaction costs
Under IFRS, transaction costs related to a financial instrument (other than those designated as FVTPL) must be deferred and amortized but under CGAAP, there is a policy choice between expensing and deferral. The legal fees and appraisal fees paid on behalf of the members were previously expensed as incurred in accordance with AcG-4, "Fees and costs associated with lending activities" of CGAAP.

The adoption of IFRS resulted in a deferral of transactions costs amounting to $398,000 as of January 1, 2010 and $nil as of Dec 31, 2010.

(ii) Income tax receivable/payable
Under CGAAP, as of January 1, 2010 income tax receivable was included in other assets and as of December 31, 2010 income tax payable was included in other liabilities. IFRS requires income tax receivable/payable to be presented separately on the consolidated balance sheet. Accordingly, this account has been reclassified and shown separately on the consolidated balance sheet.

(iii) Employee benefits
Defined benefit asset/liability – Alterna Savings elected to adopt the transition exemption (under IFRS 1) from retrospective restatement and recognized all cumulative unamortized actuarial gains and losses (including unamortized transitional gains) in retained earnings at transition.

A defined benefit asset was previously recognized under CGAAP, included in other assets. The recognition of defined benefit assets is different under IAS 19 and IFRIC 14, "The limit on a defined benefit asset, minimum funding requirements and their interaction". Alterna Savings' defined benefit asset was therefore reduced to zero as of January 1, 2010 under IFRS, due to the application of restrictions under IFRIC 14 for recognizing such benefit assets and a solvency liability of $2,893,000 was recorded as of January 1, 2010 on transition to IFRS.

Recognition of actuarial gains and losses – IAS 19, "Employee Benefits" describes three permissible methods for recognizing actuarial gains and losses which are the corridor approach, immediate recognition in income or immediate recognition in OCI.

Under CGAAP, Alterna Savings followed the corridor approach. On transition to IFRS, Alterna Savings adopted the immediate recognition in OCI approach for recognizing actuarial gains and losses.

(iv) Impairment allowances
Specific and general provisions for bad debt were previously recognized under CGAAP. The impairment approach under IFRS differs from CGAAP, as general provisions are no longer permitted and impairment losses can only be provided for when there is objective evidence of an incurred loss. In accordance with the impairment calculation methodology set out in IAS 39, "Financial instruments: Recognition and measurement", Alterna Savings' provisioning level has decreased by $985,000 as at January 1, 2010 and by $1,076,000 cumulatively as at December 31, 2010.

(v) Deferred income tax asset/liability
Changes in deferred income tax assets and deferred income tax liabilities have arisen as a consequence of the different method of measurement. A net deferred income tax asset has been recorded based on the changes in the carrying value of assets and liabilities.

(vi) Loans, advances and borrowings
(1) Under IAS 39, "Financial Instruments: Recognition and Measurement" the asset derecognition rules are such that, for specific securitized loans and receivables where the entity substantially retains the risks and rewards of ownership of these assets, those assets cannot be derecognized from the consolidated balance sheet.

Alterna Savings has participated in CMHC's Canada Mortgage Bond ("CMB") program through Central 1 whereby fixed-rate residential mortgages had been securitized through the creation of mortgage-backed securities. The securitization transactions have been accounted for as sales in accordance with CGAAP AcG-12, "Transfer of Receivables", as Alterna Savings surrendered control of the transferred assets. Alterna Savings retained an excess-spread interest in these transferred mortgages and the responsibility for servicing them. The retained interests were included in investments on the consolidated balance sheet, the related mortgages were removed from the consolidated balance sheet and a servicing liability was recognized.

Alterna Savings has determined that the securitization transactions do not meet the derecognition criteria under IAS 39, "Financial instruments: Recognition and Measurement" and, therefore, cannot be derecognized. Accordingly, Alterna Savings has recorded the transferred assets in their entirety and recognized a financial liability for the consideration received by restating the carrying values of related assets and liabilities on the consolidated balance sheet on transition to IFRS.

This change has not resulted in any impact on net assets, since an equivalent liability for securitized loan funding is also recognized to reflect the proceeds received for the securitized loans.

The balances of securitized loans as at January 1, 2010 and December 31, 2010 were $72,881,000 and $53,261,000 respectively which would have been brought back on consolidated balance sheet had this accounting policy been applied as of January 1, 2010.

(2) The balances of retained interest (CMB program) as of January 1, 2010 $5,009,000 and December 31, 2010 $3,021,000 have also been removed from other investments as a result of reinstating the securitized asset on the consolidated balance sheet under IFRS.

(3) The related deferred servicing income (CMB program) which was included in other liabilities under CGAAP has been removed from the consolidated balance sheet under IFRS.

(4) The related OCI balance of retained interest (AFS - CMB program) was included in AOCI under CGAAP. It has been removed from the consolidated balance sheet under IFRS.

(vii) Cash Flow Hedges

The effectiveness test for cash flow hedges is different than that under CGAAP. The CVA adjustments on the underlying swaps are not incorporated into the effectiveness test under CGAAP but they are incorporated under IFRS.

(viii) Intangible assets

Alterna Savings' intangible assets include $200,000 that was paid by Alterna Savings to another company for the rights to commercially use the "Alterna" name in November 2003. Alterna Savings has evaluated its accounting treatment for this transaction and determined that though this intangible asset (Alterna name) meets the identifiability and control criteria, it does not meet the criteria of existence of future economic benefit under paragraph 17 of IAS 38, "Intangible assets". Therefore, Alterna Savings has removed this intangible asset on transition to IFRS.

(ix) Retained earnings

The transition from CGAAP to IFRS has the following impact on the retained earnings:

(000s)	Note	31 Dec 2010	1 Jan 2010
Impact of:			
Derecognition of defined benefit asset due to IFRIC 14	(iii)	-	(8,138)
Income from derecognized assets (CMB program)	(vi)	1,610	(3,945)
IFRS solvency liability for DB plans / Pension expenses	(iii)	(7)	(2,893)
Loan loss allowance adjustment	(iv)	92	985
CVA adjustment on cash flow hedge ineffectiveness	(vii)	(29)	298
Deferral of transaction costs (mortgage incentive fees)	(i)	-	398
Derecognition of intangible asset (Alterna name)	(viii)	-	(200)
Deferred income tax asset/(liability) due to above changes	(v)	(203)	1,898
Net impact on retained earnings		$1,463	($11,597)

(x) Business combination

Under IFRS 1, an entity can elect exemption from retrospective restatement at transition for all past business combinations (business combinations that occurred before transition to IFRS) or if the transition exemption is not elected, an entity needs to revisit all business combinations (before transition to IFRS) and restate the financial statements.

Alterna Savings elected to adopt the transition exemption under IFRS 1 from retrospective restatements and will continue the carrying values for all assets and liabilities acquired from all past business combinations.

(xi) Effect on consolidated statement of cash flows

There are no material differences between the consolidated statement of cash flows presented under CGAAP and the consolidated statement of cash flows presented under IFRS.

4. INVESTMENTS

(000s)	31 Dec 2011	31 Dec 2010	1 Jan 2010
Designated as fair value through profit or loss:			
CUCO Co-op shares (note 5)	**$9,217**	$-	$-
ABCP LP (note 5)	**-**	9,485	8,305
Designated as available-for-sale:			
Central 1 liquidity deposits	**132,726**	141,796	137,681
Central 1 shares	**17,117**	13,710	13,690
Money market instruments	**76,284**	64,210	-
Residential mortgages purchased as investments	**-**	-	369
Other	**338**	338	339
	$ 235,682	$229,539	160,384

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, 2010 – 7%; January 1, 2010 - 7%) 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.

Alterna Savings' investment in CUCO Co-op shares (December 31, 2010 - ABCP LP; January 1, 2010 - ABCP LP) has been designated as FVTPL and has been measured and recorded at fair value. All remaining investments have been designated as AFS and have been measured and recorded at fair value except for Central 1 shares and other investments which are carried at cost as they are not actively traded and have no established market value. No impairment was recognized during 2011 or 2010.

US Dollar investments included in the amounts above are as follows:

(000s)	31 Dec 2011	31 Dec 2010	1 Jan 2010
Included in money-market instruments			
Book value	**$21,459**	$17,008	$-
Fair market value	**$21,437**	$17,024	$-
Included in other instruments			
Book value	**$31**	$30	$32
Fair market value	**$31**	$30	$30

5. ASSET-BACKED COMMERCIAL PAPER LIMITED PARTNERSHIP AND CUCO CO-OP SHARES

As a pre-condition of the sale of the assets of Credit Union Central of Ontario (CUCO) to Credit Union Central of British Columbia (CUCBC) in 2008, CUCO was required to divest itself of investments in certain third-party sponsored asset-backed commercial paper ("ABCP"). A resolution was approved to facilitate the sale, which created a limited partnership ("ABCP LP") (note 4) to acquire these investments funded by member credit unions in proportion to their share investment in CUCO. This limited partnership is considered to be a special purpose entity. On July 1, 2008, immediately prior to the sale, the excluded ABCP with a total par value of $186,916,000 was acquired by the ABCP LP at its estimated fair value of $133,564,000 including accrued interest, net of expenses, and other assets. Alterna Savings was required to purchase 12,535,000 units in the ABCP LP. As there was no active market for these ABCP investments, the fair values used to determine the acquisition price were provided by a specialized asset management firm engaged by CUCO to provide an independent valuation of the underlying assets. As investments held by the ABCP LP matured and excess cash was held, the ABCP LP periodically distributed cash to the unit holders, repaying part of their initial investment.

On August 31, 2011 the ABCP LP sold its assets to the new CUCO Cooperative Association (CUCO Co-op) in consideration for 3,273,803,000 Co-op Class B Investment shares and 15,470,000 Membership shares. CUCO Co-op is the old CUCO that continued its operation under the Canada Co-operatives Act. On the date of transfer, the fair value of the CUCO Co-op Investment shares was equal to the fair value of the assets transferred by ABCP LP. Credit unions (including Alterna Savings) received their relative holdings of CUCO Co-op Membership shares and new Class B Investment shares in the same proportion of their holdings in ABCP LP. The distributions and dividends on the CUCO Co-op membership shares and investment shares will be at the discretion of the CUCO Co-op board of directors (the "CUCO Co-op Board").

Alterna Savings' exposure to the performance of the underlying investments effectively remains unchanged as its relative interest in CUCO Co-op matches its relative interest in the ABCP LP. Alterna Savings' relative interest in the assets and unused tax losses of the former CUCO entity also effectively remains unchanged.

In mid-September, the outgoing board of CUCO Co-op (the pre-continuance board of CUCO) resigned and appointed the directors of the ABCP LP in their place. The CUCO Co-op Board will adopt and operate with the same policies as the ABCP LP, and in particular, its investment policy. The ABCP LP is now effectively a shell entity and is in the process of dissolution.

The CUCO Co-op investment shares and membership shares are equity instruments as both classes of shares have a right to the residual assets of the entity. They have been designated as FVTPL. The former ABCP LP investment was classified as FVTPL as well.

Due to the lack of liquidity and the consequent lack of market prices of third-party sponsored ABCP, Alterna Savings has relied upon the independent valuations provided to CUCO Co-op and the former ABCP LP. Alterna Savings agrees with the significant assumptions and estimates used in those valuations and the risk of default in the underlying assets. The valuations use a discounted cash flow model that values the underlying assets based on asset spreads and timing of payments on the restructured notes. Those valuations were based on assessments as at December 30, 2011, December 31, 2010 and January 1, 2010 using estimates and circumstances that may change in subsequent periods. Items that may have a material impact on the fair value include further changes in the value of the underlying assets, developments related to the liquidity of the third-party sponsored ABCP market and further changes in economic conditions, which could therefore affect the carrying value of the CUCO Co-op shares (December 31, 2010 - ABCP LP units; January 1, 2010 - ABCP LP units). In 2011, the net increase in the fair market value of the investment of $51,000 (2010 - $1,625,000) is included under unrealized gains/(losses) on financial instruments on the consolidated statement of income. During the year, Alterna Savings received $319,000 (2010 - $445,000) in cash distributions from the ABCP LP which had been recorded as a reduction in the carrying value of the investment prior to the sale to CUCO Co-op.

6. LOANS

(000s)	**31 Dec 2011**	31 Dec 2010	1 Jan 2010
Personal loans	**$237,849**	$251,677	$267,216
Residential mortgage loans	**975,485**	923,631	885,199
Commercial loans	**753,920**	694,968	652,571
	$1,967,254	$1,870,276	1,804,986
Less allowance for impaired loans (note 7)	**(1,960)**	(2,513)	(2,857)
	$1,965,294	$1,867,763	1,802,129

7. ALLOWANCE FOR IMPAIRED LOANS AND IMPAIRED LOANS

a) ALLOWANCE FOR IMPAIRED LOANS:

(000s)				**31 Dec 2011**
	Personal Loans	**Residential Mortgage Loans**	**Commercial Loans**	**Total**
Balance, beginning of year	**$1,664**	**$19**	**$830**	**$2,513**
Less: Loans written off	**(831)**	**(4)**	**(42)**	**(877)**
Add: Recoveries on loans previously written off	**234**	**-**	**-**	**234**
Add: Allowance (recovered from) charged to operations	**570**	**9**	**(489)**	**90**
Balance, end of year	**$1,637**	**$24**	**$299**	**$1,960**
Individual impairment				**$549**
Collective impairment				**1,411**
				$1,960

(000s)				31 Dec 2010
	Personal Loans	Residential Mortgage Loans	Commercial Loans	Total
Balance, beginning of year	$2,293	$14	$550	$2,857
Less: Loans written off	(1,171)	(14)	(78)	(1,263)
Add: Recoveries on loans previously written off	191	-	-	191
Add: Allowance charged to operations	351	19	358	728
Balance, end of year	$1,664	$19	$830	$2,513
Individual impairment				$585
Collective impairment				1,928
				$2,513

b) IMPAIRED LOANS:

The balance of loans identified as impaired, prior to any recovery from collateral on these loans, at the end of the year was as follows:

(000s)	**31 Dec 2011**	31 Dec 2010	1 Jan 2010
Personal loans	**$609**	$541	$1,003
Residential mortgage loans	**-**	701	1,636
Commercial loans	**6**	40	108
	$617	$1,282	$2,747

c) LOANS PAST DUE BUT NOT IMPAIRED:

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of the loans that are past due but not classified as impaired because they are either (i) less than 90 days past due, or (ii) less than 180 days past due and fully secured and collection efforts are reasonably expected to result in repayment.

(000s)				**31 Dec 2011**
	1-29 days	**30-89 days**	**90 days and greater**	**Total**
Personal loans	**$17,618**	**$1,477**	**$-**	**$19,095**
Residential mortgage loans	**35,754**	**3,053**	**441**	**39,248**
Commercial loans	**36,764**	**4,976**	**6**	**41,746**
	$90,136	**$9,506**	**$447**	**$100,089**

(000s)				31 Dec 2010
	1-29 days	30-89 days	90 days and greater	Total
Personal loans	$8,634	$1,178	$-	$9,812
Residential mortgage loans	25,033	3,774	827	29,634
Commercial loans	1,779	63	-	1,842
	$35,446	$5,015	$827	$41,288

(000s)				1 Jan 2010
	1-29 days	30-89 days	90 days and greater	Total
Personal loans	$10,732	$2,173	$-	$12,905
Residential mortgage loans	28,293	4,364	975	33,632
Commercial loans	24,152	79	-	24,231
	$63,177	$6,616	$975	$70,768

d) COLLATERAL:

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.

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Loans neither past due nor impaired as a percentage of total loans	**95%**	98%	96%
Amounts of loans restructured during the period that would otherwise have been past due or impaired (000s)	**$52**	$24	$113
Collateral repossession: Carrying value at balance sheet date of collateral properties possessed during the period (000s)	**$-**	$215	$279

8. PROPERTY AND EQUIPMENT

(000s)	Land	Buildings	Furniture and equipment	Computer hardware	Leasehold Improvements	Total
Cost:						
Balance as of January 1, 2011	**$3,317**	**$9,070**	**$9,131**	**$4,436**	**$8,889**	**$34,843**
Additions	**-**	**174**	**836**	**1,925**	**335**	**3,270**
Disposals	**-**	**(3)**	**(450)**	**(146)**	**-**	**(599)**
Balance as of December 31, 2011	**3,317**	**9,241**	**9,517**	**6,215**	**9,224**	**37,514**
Depreciation and impairment:						
Balance as of January 1, 2011	**-**	**8,754**	**4,919**	**3,552**	**6,720**	**23,945**
Depreciation	**-**	**244**	**977**	**694**	**543**	**2,458**
Disposals	**-**	**(3)**	**(441)**	**(146)**	**-**	**(590)**
Balance as of December 31, 2011	**-**	**8,995**	**5,455**	**4,100**	**7,263**	**25,813**
Net book value:						
Balance as of January 1, 2011	**3,317**	**316**	**4,212**	**884**	**2,169**	**10,898**
Balance as of December 31, 2011	**$3,317**	**$246**	**$4,062**	**$2,115**	**$1,961**	**$11,701**

(000s)	Land	Buildings	Furniture and equipment	Computer hardware	Leasehold Improvements	Total
Cost:						
Balance as of January 1, 2010	$3,317	$9,043	$7,968	$4,506	$8,760	$33,594
Additions	-	27	3,045	544	278	3,894
Disposals	-	-	(1,882)	(614)	(149)	(2,645)
Balance as of December 31, 2010	3,317	9,070	9,131	4,436	8,889	34,843
Depreciation and impairment:						
Balance as of January 1, 2010	-	8,385	5,976	3,407	6,090	23,858
Depreciation	-	369	797	669	774	2,609
Disposals	-	-	(1,854)	(524)	(144)	(2,522)
Balance as of December 31, 2010	-	8,754	4,919	3,552	6,720	23,945
Net book value:						
Balance as of January 1, 2010	3,317	658	1,992	1,099	2,670	9,736
Balance as of December 31, 2010	$3,317	$316	$4,212	$884	$2,169	$10,898

Assets under finance leases totaling $6,082,000 (December 31, 2010 - $5,823,000; January 1, 2010 - $5,375,000) are included in both computer hardware and furniture and equipment. Depreciation expense and accumulated depreciation on finance leases were $823,000 (2010 - $531,000) and $3,544,000 (2010 - $2,855,000) respectively. Assets acquired by means of finance leases are non-cash transactions for purposes of the consolidated cash flow statement, and consequently have not been presented as either a financing or an investing activity.

Total depreciation charged to income in 2011, including the foregoing finance lease depreciation, was $2,459,000 (2010 - $2,611,000) and is included in administration and occupancy costs under operating expenses on the consolidated statement of income.

Impairment losses on property and equipment are recorded within administration and occupancy costs on the consolidated statement of income.

The gross carrying amount of fully depreciated property and equipment that are still in use is $18,963,000 as of December 31, 2011 (December 31, 2010 - $12,074,000).

9. INTANGIBLE ASSETS

(000s)			**31 Dec 2011**
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**
Computer software	**$16,904**	**$13,919**	**$2,985**

(000s)			31 Dec 2010
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Computer software	$15,756	$11,898	$3,858

(000s)			1 Jan 2010
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Computer software	$15,706	$9,980	$5,726

The aggregate amount of intangible assets acquired during the year was $1,864,000 (2010 - $310,000; 2009 - 505,000). Total amortization charged to income in 2011 was $2,049,000 (2010 - $2,091,000) and is included in administration costs under operating expenses on the consolidated statement of income. All intangible assets have been acquired, not developed.

10. OTHER ASSETS

(000s)	**31 Dec 2011**	31 Dec 2010	1 Jan 2010
Accrued interest receivable	**$5,580**	$4,880	$4,031
Other	**3,591**	4,372	2,948
	$9,171	$9,252	$6,979

11. DEPOSITS

(000s)	31 Dec 2011	31 Dec 2010	1 Jan 2010
Demand deposits	**$873,481**	$845,641	$800,004
Term deposits	**501,872**	473,054	$461,084
Registered plans	**705,676**	678,444	643,521
	$2,081,029	$1,997,139	$1,904,609

As at December 31, 2011, Alterna Savings held US dollar deposits from members of US $22,406,000 (December 31, 2010 – US $20,916,000; January 1, 2010 - US $15,210,000) with a carrying amount of $22,787,000 (December 31, 2010 - $20,803,000; January 1, 2010 - US $15,985,000).

12. BORROWINGS

(000s)	31 Dec 2011	31 Dec 2010	1 Jan 2010
Borrowings	**$10,000**	$-	$30,000
Canada Mortgage Bond liabilities (note 31b)	**36,136**	53,261	72,881
	$46,136	$53,261	$102,881

Alterna Savings (unconsolidated) has access to a $131,907,000 credit facility with Central 1 consisting of operating lines of credit of CDN $7,000,000 and US $500,000; term loans of CDN $124,407,000 and additional uncommitted term loan funds of CDN $38,708,000 plus CDN $600,000 for capital markets and CDN $5,000,000 for letters of credit.

The lines of credit are payable on demand within 30 days, bear interest at the Bank of Canada overnight rate plus 0.75% and are secured by a pledge of certain assets under a general security agreement. There was a $nil balance on these lines of credit at the end of the year (December 31, 2010 - $nil; January 1, 2010 - $nil).

The operating term loans are payable at maturity or at call period (7 days), bear interest at Central 1 cost of fund rate plus 20 to 50 basis points and are secured by a pledge of certain assets under a general security agreement. There was a $10,000,000 balance on the operating term loans at the end of the year (December 31, 2010 - $nil; January 1, 2010 - $30,000,000). The borrowings against the uncommitted funds are payable at maturity, bear interest at Central 1 cost of fund rate plus a variable spread plus a 5 to 10 basis points standby fee.

The carrying values of assets pledged under the general security agreement, excluding assets of Alterna Bank, are as follows:

(000s)	31 Dec 2011	31 Dec 2010	1 Jan 2010
Loans, net of allowance for impaired loans	**$1,811,466**	$1,714,680	$1,650,490
Property and equipment	**11,277**	10,707	9,475
Intangible assets	**2,985**	3,858	5,726
Other assets	**9,256**	9,260	7,302
	$1,834,984	$1,738,505	$1,672,993

Alterna Savings did not have any defaults of principal, interest or other breaches with respect to borrowing facilities in 2011 and 2010.

13. OTHER LIABILITIES

(000s)	**31 Dec 2011**	31 Dec 2010	1 Jan 2010
Accrued interest payable	**$13,083**	$13,394	$14,359
Trade payables and accrued expenses	**11,497**	10,024	10,020
Finance lease obligations (note 14)	**2,313**	2,771	717
Accrued benefit liability (note 21)	**5,658**	2,548	3,035
Deferred revenue	**1,033**	1,518	755
Certified cheques	**723**	1,399	1,215
Salaries and benefits payable	**958**	1,030	973
Dividend payable	**435**	533	526
	$35,700	$33,217	$31,600

14. LEASES

a) FINANCE LEASE OBLIGATIONS:

The following table presents the net carrying value for each class of leasing assets held under finance leases.

(000s)	**31 Dec 2011**	31 Dec 2010	1 Jan 2010
Computer hardware	**$2,313**	$2,771	$717

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

(000s)	**31 Dec 2011**	31 Dec 2010
Future minimum lease payments		
Within one year	**$689**	$799
From one to five years	**1,635**	1,761
Later than five years	**291**	610
Total future minimum lease payments	**2,615**	3,170
Less: Future interest charges	**(302)**	(399)
Present value of finance lease commitments	**$2,313**	$2,771

Finance lease obligations are repayable monthly and mature at various dates up to November 2017, secured by the lessors' title to the leased property and equipment with implicit interest rates from 0.24% to 11.50% (see note 8).

b) OPERATING LEASE OBLIGATIONS:

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

(000s)	**31 Dec 2011**	31 Dec 2010
Future minimum lease payments		
Within one year	**$2,004**	$2,246
From one to five years	**5,175**	6,215
Later than five years	**2,361**	1,187
Total future minimum lease payments	**$9,540**	$9,648

During 2011, $4,141,000 was recognized as an expense, under occupancy costs in the consolidated statement of income in respect of operating leases (2010 - $3,851,000).

All finance and operating leases have options for renewal, at which time all terms are renegotiated.

15. 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 eighteen years of age. Each member under the age of eighteen 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. The dividend rate for both Class A, Series 1 and Class A, Series 2 was approved by the Board of Directors at 5.63% and 4.50% for the period of September 1, 2010 to August 31, 2011 and January 1, 2011 to December 31, 2011, respectively.

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 Winding-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. 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 will not be permitted to redeem their shares prior to the fifth anniversary of the first issuance of the shares, expected to occur in March 2012 following a six-month subscription period. Subscriptions received as of December 31, 2011 totaled $17,039,000 and are included in term deposits (note 11). The offering for these shares closed on February 29, 2012, at which time subscriptions totaling approximately $34,000,000 had been received. The Board will approve redemption requests once annually, at its first Board meeting in each fiscal year once redemptions can legally occur. 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 3 shares, issued and outstanding at the end of the prior fiscal year. Alterna Savings, at its option, may reacquire the Class A, Series 3 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.

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, 2011 is as follows (in thousands):

	Class A Special Shares				Class B Special Shares		Membership Shares	
	Series 1		Series 2		Series 1			
	Number of Shares	$	Number of Shares	$	Numbe r of Shares	$	Number of Shares	$
Issued and outstanding as at January 1, 2010	12,275	12,062	9,348	9,348	2,609	2,609	1,779	1,779
Net shares issued (redeemed)	9	9	95	95	(163)	(163)	(201)	(201)
Issued and outstanding as at December 31, 2010	12,284	12,071	9,443	9,443	2,446	2,446	1,578	1,578
Net shares issued (redeemed)	(1)	-	229	229	(130)	(130)	(24)	(24)
Issued and outstanding as at December 31, 2011	**12,283**	**12,071**	**9,672**	**9,672**	**2,316**	**2,316**	**1,554**	**1,554**

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

d) DIVIDENDS DECLARED:

During 2011 the Board of Directors approved (i) a $692,000 dividend to holders of record of 12,283,000 Class A, Series 1 shares as of August 31, 2011 (2010 - $692,000) payable in cash; (ii) a $435,000 dividend to holders of record of 9,672,000 Class A, Series 2 shares as of December 31, 2011 payable in cash and/or additional Class A, Series 2 shares (2010 – $532,000); and (iii) a $24,000 dividend to holders of record of 2,446,000 Class B, Series 1 shares as of December 31, 2010 payable in additional Class B, Series 1 shares (2010 - $26,000). These dividends are presented in members' equity net of income taxes of $179,000 (2010 - $201,000) in the consolidated financial statements, for a balance of $972,000 (2010 - $1,049,000).

16. CONTRIBUTED SURPLUS

On April 1, 2005, the Civil Service Co-operative Credit Society Limited (CS Co-op) and Metro Credit Union Limited amalgamated, commencing operations as of that date as Alterna Savings. The amalgamation was effected by an exchange of shares and the fair value of Metro's net assets was used as the cost of purchase and fair value of exchange of such shares. The difference between the fair value of the net assets acquired and the exchange value of the shares issued was recorded as contributed surplus in the books of Alterna Savings.

17. INTEREST INCOME AND INTEREST EXPENSE

(000s)	31 Dec 2011	31 Dec 2010
Interest Income:		
Personal loans	**$10,461**	$10,136
Residential mortgage loans	**39,204**	39,936
Commercial loans	**40,021**	37,879
Swap agreements	**2,714**	5,057
	$92,400	$93,008
Interest Expense:		
Demand deposits	**$4,945**	$3,959
Term deposits	**10,684**	11,129
Registered plans	**17,188**	19,096
Borrowings	**1,044**	1,188
	$33,861	$35,372

Interest income recorded on impaired loans was $nil and $nil for the years ended December 31, 2011 and 2010 respectively, as they were 100% provisioned.

18. OTHER INCOME

(000s)	31 Dec 2011	31 Dec 2010
Service charges	**$5,410**	$5,952
Commissions	**4,393**	4,992
ABM network fees	**1,164**	1,284
Other	**412**	450
	$11,379	$12,678

19. INVESTMENT INCOME

(000s)	31 Dec 2011	31 Dec 2010
Net gains/(losses) on financial assets fair valued through profit or loss	**$240**	$7
Net gains/(losses) on financial assets available-for-sale	**5,819**	3,089
	$6,059	$3,096

20. OPERATING EXPENSES

(000s)	31 Dec 2011	31 Dec 2010
Salaries and benefits	**$36,174**	$32,854
Administration	**15,022**	14,754
Occupancy	**6,609**	6,464
Data processing	**5,191**	4,714
Deposit insurance premiums	**2,116**	1,828
Marketing and community relations	**1,857**	1,997
	$66,969	$62,611

21. EMPLOYEE BENEFIT PLANS

Alterna Savings maintains three pension plans for current employees and retirees, and one post-retirement benefits program. Until March 31, 2006, some employees were eligible to join in the Alterna Savings DB pension plan that provides for an early retirement incentive for eligible employees as noted below; and, the senior executives who participated in the DB plan were provided with a SRIP. Both plans provide for pensions based on length of service and career average earnings.

Most employees are eligible to participate in the DC plan which prescribes both employer and employee contributions. An early retirement incentive is also provided for eligible employees as noted below, as well as a post-retirement benefits program to certain eligible employees and retirees.

Effective January 1, 2008, pension benefits for employees participating in Alterna Savings’ DB pension plan began to accrue under the DC plan and all benefits ceased to accrue under the existing DB pension plan and SRIP. Early retirement benefits have been removed for all employees who were not eligible for retirement prior to January 1, 2008. Post-retirement benefits ceased as of March 1, 2006 for employees retiring after February 28, 2006 and not eligible to retire at that date. Existing retirees will continue to receive benefits under the plans in which they had been enrolled.

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 defined benefits pension plans (DB pension plan and SRIP) and the post-retirement benefits program were measured as at December 31, 2011, and are detailed as follows:

(000s)			**31 Dec 2011**	31 Dec 2010
	Pension	**Benefits**	**Total**	Total
Accrued benefit obligation:				
Balance, beginning of year	**$21,937**	**$184**	**$22,121**	$20,030
Current service cost	**-**	**-**	**-**	11
Interest cost	**1,190**	**4**	**1,194**	1,246
Plan amendments	**407**	**-**	**407**	-
Benefits paid	**(1,176)**	**(131)**	**(1,307)**	(1,307)
Actuarial losses (gains)	**3,184**	**1**	**3,185**	2,141
Balance, end of year	**$25,542**	**$58**	**$25,600**	$22,121
Plans' assets:				
Fair value, beginning of year	**$25,082**	**$-**	**$25,082**	$23,883
Actual return on plan assets	**669**	**-**	**669**	1,831
Employer contributions	**643**	**131**	**774**	675
Benefits paid	**(1,176)**	**(131)**	**(1,307)**	(1,307)
Fair value, end of year	**$25,218**	**$-**	**$25,218**	$25,082
Overfunded (underfunded) status of plans	**($324)**	**($58)**	**($382)**	$2,961
Limit on amount recognized (min. funding obligation/unrecognized plan surplus)	**(5,276)**	**-**	**(5,276)**	(5,509)
Accrued benefit liability	**($5,600)**	**($58)**	**($5,658)**	($2,548)

As at December 31, 2011, the underfunded status of the DB pension plan was $1,114,000 (December 31, 2010 – overfunded status of $2,150,000; January 1, 2010 - overfunded status of $3,056,000) and the over funded status of the SRIP was $790,000 (December 31, 2010 - $995,000; January 1, 2010 - $1,212,000).

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

	31 Dec 2011		31 Dec 2010		1 Jan 2010	
	Pension	**Benefits**	Pension	Benefits	Pension	Benefits
Discount rate for accrued benefit obligation	**4.48%**	**3.00%**	5.56%	3.60%	6.44%	4.75%
Discount rate for pension expense	**5.56%**	**3.60%**	6.45%	4.75%	7.50%	7.50%
Expected long-term rate of return on plan assets	**6.66%**	**-**	6.88%	-	6.67%	-

The health care cost trend rate is expected to be 9% in 2012 decreasing by 1% per year until the rate reaches 4% in 2017.

Assumed health care cost trend rates have an impact on the amounts reported for the health care and dental plans post-retirement benefits plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2011:

	Increase	**Decrease**
Total of service and interest cost	**$-**	**$-**
Accrued benefit obligation	**$1,074**	**$1,041**

As at December 31, 2011, the weighted average percentage of market value of the pension plans' assets for each major asset class was as follows:

Fixed Income:	
Cash equivalents	**6%**
Bonds	**37%**
	43%
Equities:	
Canadian	**35%**
United States	**9%**
Other international	**13%**
	57%
	100%

The net recoveries for the defined benefit plans and post-retirement benefit program included in operating expenses on the consolidated statement of income are as follows:

(000s)	**31 Dec 2011**	31 Dec 2010
Current service cost	**$-**	$11
Interest cost	**1,194**	1,246
Expected return on plan assets	**(1,650)**	(1,614)
Amortization of prior service costs	**407**	-
	($49)	($357)

The actual return on plan assets was $981,000 lower (2010 - $217,000 higher) than expected return on plan assets for the year ended December 31, 2011.

The next actuarial valuation for funding purposes of the DB pension plan is to be performed as at December 31, 2011 (the most recent valuation was performed as at December 31, 2009). 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, 2009 for the DB pension plan and December 31, 2010 for the post-retirement benefit program.

Alterna Savings expects to contribute approximately $2,705,000 to its employee benefits plans in 2012.

Defined Contribution Pension Plan
The pension expense for the DC pension plan for the year ended December 31, 2011 was $1,082,000 (2010 - $1,090,000).

Total Cash Payments
Total cash payments for employee benefit plans for 2011, 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 was $1,857,000 (2010 - $1,765,000).

22. INCOME TAXES

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

(000s)	31 Dec 2011	31 Dec 2010	1 Jan 2010
Deferred pension liability	**$880**	$301	$460
Property and equipment	**649**	271	(77)
Derivatives	**(198)**	374	(56)
Corporate minimum tax	**133**	458	639
Allowance for impaired loans	**237**	273	284
Deferred revenue	**129**	276	-
Other	**-**	(62)	(71)
	$1,830	$1,891	$1,179
On Consolidated Balance Sheet:			
Deferred Income Tax Asset	**$1,830**	$1,916	$1,179
Deferred Income Tax Liability	**-**	(25)	-
Net Deferred Income Tax	**$1,830**	$1,891	$1,179

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

(000s)	31 Dec 2011		31 Dec 2010	
	Amount	**Percent**	Amount	Percent
Expected tax provision at combined federal and provincial rates	**$2,528**	**40%**	$3,104	41%
Credit union deduction	**(1,049)**	**(16%)**	(2,780)	(37%)
Tax rate differential	**273**	**4%**	1,963	26%
Prior years' adjustments	**234**	**4%**	(93)	(1%)
Effect of lower tax rates in Alterna Bank	**(288)**	**(5%)**	(236)	(3%)
Permanent differences	**(381)**	**(6%)**	38	-%
Corporate minimum tax	**(139)**	**(2%)**	(231)	(3%)
Other – net	**61**	**1%**	(83)	(1%)
	$1,239	**20%**	$1,682	22%

On Consolidated Statement of Income:	31 Dec 2011	31 Dec 2010
Current Income Tax	**927**	2,642
Deferred Income Tax	**312**	(960)
Provision for income taxes	**1,239**	1,682

The Ontario Corporate Minimum tax credits carried forward will expire as follows (in thousands of dollars):

2029	134
	$134

The deferred income tax related to items charged or credited to equity during the year is as follows:

(000s)	**31 Dec 2011**	31 Dec 2010
Change in unrealized gains and losses on available-for-sale securities	**$390**	($200)
Change in gains and losses on derivatives designated as cash flow hedges	**408**	290
Net losses on derivatives designated as cash flow hedges transferred to income	**(7)**	72
Defined benefit plan - actuarial losses	**(616)**	(36)
	$175	$126

There are no tax related contingent liabilities and contingent assets as of December 31, 2011 in accordance with IAS 37, "Provisions, contingent liabilities and contingent assets".

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

23. 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 allowance for impaired loans, using the valuation methods and assumptions described below.

(000s)	**31 Dec 2011**		31 Dec 2010		1 Jan 2010	
	Carrying value	**Fair value**	Carrying value	Fair value	Carrying value	Fair value
Available-for-sale:						
Cash and cash equivalents	**$60,852**	**$60,852**	$81,933	$81,933	$166,222	$166,222
Investments	**226,465**	**226,465**	220,054	220,054	152,079	152,079
Designated as FVTPL:						
Investments	**9,217**	**9,217**	9,485	9,485	8,305	8,305
Derivative financial instruments						
- swaps	**3,958**	**3,958**	3,598	3,598	6,458	6,458
- purchased options	**971**	**971**	2,727	2,727	2,278	2,278
- equity options	**975**	**975**	975	975	-	-
Loans and receivables:						
Loans						
- personal loans	**237,849**	**238,310**	251,677	252,228	267,216	268,110
- residential mortgage loans	**975,485**	**1,009,688**	923,631	956,985	885,199	946,706
- commercial loans	**753,920**	**790,347**	694,968	729,755	652,571	702,970
TOTAL ASSETS	**$2,269,692**	**$2,340,783**	$2,189,048	$2,257,740	$2,140,328	$2,253,128
Other liabilities:						
Deposits						
- demand deposits	**$873,481**	**$873,481**	$845,641	$845,641	$800,004	$800,004
- term deposits	**501,872**	**504,217**	473,054	475,910	461,084	468,107
- registered plans	**705,676**	**712,351**	678,444	685,213	643,521	654,607
Borrowings	**46,136**	**46,136**	53,261	53,261	102,881	102,881
Designated as FVTPL:						
Derivative financial instruments						
- swaps	**780**	**780**	803	803	2,499	2,499
- embedded options	**936**	**936**	2,700	2,700	2,233	2,233
TOTAL LIABILITIES	**$2,128,881**	**$2,137,901**	$2,053,903	$2,063,528	$2,012,222	$2,030,331

The estimated fair value amounts approximate the amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. Fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates. Because of the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of instruments.

The fair values of financial instruments are generally determined as follows:

Investments (excluding Central 1 shares, other shares and investment in CUCO Co-op) - at discounted cash flows using prevailing interest rates.

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 allowance for impaired loans.

Derivative financial instruments (excluding equity options) – determined through valuation models based on the derivative notional amounts, maturity dates and rates.

The fair values of financial instruments with a term of less than one year approximate their carrying values, due to their short term nature, except where otherwise indicated.

Fair Value Hierarchy

Financial instruments carried at fair value have been classified into a hierarchy based on quoted prices in active markets (Level 1), models using observable inputs other than quoted prices (Level 2), or models using inputs that are not based on observable market data (Level 3).

The following tables show the hierarchical classification of financial assets and liabilities measured at fair value as at December 31, 2011,December 31, 2010 and January 1, 2010:

December 31, 2011 (000s)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:				
Financial investments FVTPL	**$-**	**$-**	**$9,217**	**$9,217**
Financial investments AFS	**-**	**209,010**	**-**	**209,010**
Derivative financial instruments				
- swaps	**-**	**3,958**	**-**	**3,958**
- purchased options	**-**	**971**	**-**	**971**
Total financial assets	**$-**	**$213,939**	**$9,217**	**$223,156**
Financial liabilities :				
Derivative financial instruments				
- swaps	**$-**	**($780)**	**$-**	**($780)**
- embedded options	**-**	**(936)**	**-**	**(936)**
Total financial liabilities	**$-**	**($1,716)**	**$-**	**($1,716)**

December 31, 2010 (000s)	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial investments FVTPL	$-	$-	$9,485	$9,485
Financial investments AFS	-	206,006	-	206,006
Derivative financial instruments				
- swaps	-	3,598	-	3,598
- purchased options	-	2,727	-	2,727
Total financial assets	$-	$212,331	$9,485	$221,816
Financial liabilities :				
Derivative financial instruments				
- swaps	$-	($803)	$-	($803)
- embedded options	-	(2,700)	-	(2,700)
Total financial liabilities	$-	($3,503)	$-	($3,503)

January 1, 2010 (000s)	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial investments FVTPL	$-	$-	$8,305	$8,305
Financial investments AFS	-	137,681	-	137,681
Derivative financial instruments				
- swaps	-	6,458	-	6,458
- purchased options	-	2,728	-	2,728
Total financial assets	$-	$146,867	$8,305	$155,172
Financial liabilities :				
Derivative financial instruments				
- swaps	($-)	($2,499)	($-)	($2,499)
- embedded options	(-)	(2,233)	(-)	(2,233)
Total financial liabilities	($-)	($4,732)	($-)	($4,732)

The table below presents the changes in fair value of Level 3 financial assets and liabilities for the year ended December 31, 2011. These instruments are measured at fair value utilizing non-observable market inputs. The total net losses included in investment income in the consolidated statement of income, on financial instruments for which fair value was estimated using a valuation technique requiring non-observable market inputs was $51,000 (2010 – net gains of $1,625,000).

December 31, 2011		**Net realized/unrealized gains (losses) included in**					
(000s)	**Opening balance**	**Net income**	**OCI**	**Purchases**	**Settlements**	**Closing balance**	**Unrealized gains [1]**
Financial investments FVTPL	**$9,485**	**$51**	**$-**	**$-**	**($319)**	**$9,217**	**$51**
Financial investments AFS	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	$9,485	**$51**	**$-**	**$-**	**($319)**	**$9,217**	**$51**

December 31, 2010		Net realized/unrealized gains (losses) included in					
(000s)	Opening balance	Net income	OCI	Purchases	Settlements	Closing balance	Unrealized gains [1]
Financial investments FVTPL	$8,305	$1,625	$-	$-	($445)	$9,485	$1,625
Financial investments AFS	368	-	(3)	-	(365)	-	-
	$8,673	$1,625	($3)	$-	($810)	$9,485	$1,625

[1] Changes in unrealized gains included in earnings for instruments held as at December 31, 2011 and 2010.

There were no transfers in or out of Level 3 during the years ended December 31, 2011 and 2010.

24. 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 sheet.

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.

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, $1,500,000 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.

Alterna Savings invests surplus liquidity in the short-term money market, securities that are secured by mortgages and in the bond market. All investments held in short-term instruments must be rated R1-L or better by Dominion Bond Rating Service (DBRS) and A-3 or better by Standard & Poor's (S&P). All securities that are secured by mortgages must be guaranteed under the National Housing Act. All investments in bonds must be rated A or better by both DBRS and S&P. Investments, other than those issued by the Government of Canada and its Crown Corporations, are diversified by limiting investments in any one issuer to a maximum of 25% of the total portfolio. In addition, investments in any single issuer or connected group are limited to a policy stated limit of $5,000,000 to $75,000,000 commensurate with the issuer's credit rating.

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 by issuer weightings and by dollar amount. 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 having similar characteristics. Alterna Savings defines counterparties as having similar characteristics if they are related entities or operate in similar industries. The concentration risk is limited for residential mortgages as

33% of the residential mortgages are insured by mortgage insurance companies (2010 – 33%). 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 excluding the amount of the insured mortgages, net of impairment losses, represents Alterna Savings' maximum exposure to credit risk without taking account of the value of any collateral obtained. The maximum exposure to credit risk at Alterna Savings was $1,643,202,000 at December 31, 2011 (2010 - $1,528,567,000).

b) MARKET RISK:

Market risk is the risk that the fair value of 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 of 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 interest rate derivatives such as swaps and options 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 reports the interest rate risk against policy limits to the Asset Liability Committee ("ALCO") on a monthly basis and to the Board at on a quarterly basis.

Alterna Savings' maximum tolerance exposure to short-term interest rate risk over twelve months is restricted to 3% of average forecasted net interest income with a 95% confidence interval as a limit. Its maximum tolerable exposure to interest rate risk on the entire consolidated balance sheet is restricted to 7% of equity as a limit to mitigate long-term interest rate risk. As of December 31, 2011, the results for these measures were 1.23% (2010 – 0.62%) and 1.24% (2010 – 2.99%), respectively.

The following table details Alterna Savings' exposure to interest rate risk resulting from the mismatch, or gap, between financial assets and 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 2011**	31 Dec 2010
				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	**$34,773**	**$-**	**$26,079**	**$-**	**$-**	**$-**	**$60,852**	$81,933
Interest Rates	**-%**	**-%**	**1.04%**	**-%**	**-%**	**-%**	**0.45%**	0.55%
Investments	**$26,672**	**$-**	**$-**	**$38,321**	**$170,689**	**$-**	**$235,682**	$229,539
Interest Rates	**-%**	**-%**	**-%**	**0.93%**	**2.40%**	**-%**	**1.89%**	1.66%
Personal loans	**$-**	**$231,973**	**$839**	**$1,069**	**$2,330**	**$-**	**$236,211**	$249,998
Interest Rates	**-%**	**4.17%**	**7.17%**	**6.53%**	**6.04%**	**-%**	**4.21%**	4.27%
Residential mortgage loans	**$-**	**$196,950**	**$23,853**	**$137,669**	**$616,476**	**$514**	**$975,462**	$923,627
Interest Rates	**-%**	**2.68%**	**4.47%**	**4.47%**	**4.24%**	**4.59%**	**3.96%**	4.23%
Commercial loans	**$-**	**$71,448**	**$48,316**	**$157,776**	**$467,844**	**$8,237**	**$753,621**	$694,138
Interest Rates	**-%**	**4.48%**	**5.10%**	**5.24%**	**5.06%**	**4.84%**	**5.04%**	5.34%
Other	**$26,203**	**$5,904**	**$-**	**$-**	**$-**	**$-**	**$32,107**	$33,224
TOTAL ASSETS	**$87,648**	**$506,275**	**$99,087**	**$334,835**	**$1,257,339**	**$8,751**	**$2,293,935**	$2,212,459
Deposits	**$-**	**$990,603**	**$134,342**	**$501,868**	**$454,216**	**$-**	**$2,081,029**	$1,997,139
Interest Rates	**-%**	**0.61%**	**2.58%**	**2.01%**	**2.46%**	**-%**	**1.48%**	1.65%
Borrowings	**$-**	**$-**	**$10,000**	**$-**	**$36,136**	**$-**	**$46,136**	$53,261
Interest Rates	**-%**	**-%**	**2.08%**	**-%**	**1.78%**	**-%**	**1.85%**	1.94%
Other	**$37,254**	**$1,716**	**$-**	**$-**	**$-**	**$-**	**$38,970**	$40,598
Members' equity	**$127,800**	**$-**	**$-**	**$-**	**$-**	**$-**	**$127,800**	$122,158
TOTAL LIABILITIES AND MEMBERS' EQUITY	**$165,054**	**$992,319**	**$144,342**	**$501,868**	**$490,352**	**$-**	**$2,293,935**	$2,212,459
MATCHING GAP	**($77,406)**	**($486,044)**	**($45,255)**	**($167,033)**	**$766,987**	**$8,751**	**$-**	$-

The amounts included above for variable rate demand instruments for both non-derivative financial assets and liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Sensitivity Analysis

Based on Alterna Savings' interest rate positions as of December 31, 2011, an immediate and sustained 100 basis point increase in interest rates across all maturities would increase net interest income and decrease other comprehensive income by approximately $1,513,000 and $2,989,000 over the next 12 months, respectively. An immediate and sustained 100 basis point decrease in interest rates would decrease net interest income and increase other comprehensive income by approximately $2,044,000 and $3,182,000, respectively.

(ii) Currency risk

Currency risk is the risk that the fair value of 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 investments and members' US dollar deposits.

Alterna Savings mitigates currency risk by investing in offsetting foreign denominated financial 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 denominated financial liabilities on a daily basis. As of December 31, 2011, the percentage of foreign denominated financial assets is within 90% - 110% of foreign denominated financial liabilities.

For a 1% instantaneous exchange rate increase (decrease), Alterna Savings' consolidated net income would increase (decrease) by $1,000.

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 National Liquidity Fund through Credit Union Central of Canada. Alterna Savings reports the liquidity risk against policy limits to ALCO on a monthly basis and to the Board on a quarterly basis.

Alterna Savings maintains a minimum of 10% (2010 – 10%) of the amount of deposits, shares and borrowings in liquid assets such as cash, Treasury bills, Central 1 liquidity deposits and other highly marketable securities. As of December 31, 2011, the percentage of liquid assets to total deposits and borrowings was 13.21% (2010 – 13.93%). For the contractual maturities of assets and liabilities, please refer to the table under note 24b Interest rate risk.

The following table provides the maturity profile of financial liabilities based on the contractual repayment obligations, and excludes contractual cash flows related to derivatives liabilities which are disclosed in note 25.

(000s)					**31 Dec 2011**	31 Dec 2010
	Less than 1 year	**1 to 5 years**	**Over 5 years**	**No specified maturity**	**Total**	Total
Deposits	**$636,210**	**$454,216**	**$-**	**$990,603**	**$2,081,029**	$1,997,139
Borrowings	**10,000**	**36,136**	**-**	**-**	**46,136**	53,261
	$646,210	**$490,352**	**$-**	**$990,603**	**$2,127,165**	$2,050,400

25. DERIVATIVE FINANCIAL INSTRUMENTS

Alterna Savings uses derivative financial instruments such as swaps and options in its management of interest rate exposure. All the derivative financial instruments with the exception of equity options are interest rate derivatives. None of the derivative financial instruments are used for trading or speculative purposes. The following table summarizes the carrying values of the derivative financial instruments held by Alterna Savings:

(000s)	**31 Dec 2011**		31 Dec 2010		1 Jan 2010	
	Carrying Value		Carrying Value		Carrying Value	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
Designated accounting hedges	**$1,814**	**$-**	$2,445	$757	$2,820	$2,499
Economic hedges	**3,115**	**1,716**	3,880	2,746	5,916	2,233
Equity options (25c)	**975**	**-**	975	-	-	-
	$5,904	**$1,716**	$7,300	$3,503	$8,736	$4,732

Economic hedges represent derivatives not qualifying as hedging relationships for accounting purposes under IAS 39, “Financial Instruments: Recognition and Measurement”. All designated accounting hedges were cash flow hedges as at December 31, 2011.

a) SWAP AGREEMENTS:

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.

A summary of the fair values and fixed notional principal amounts on Alterna Savings’ swap agreements is given below:

(000s)				**31 Dec 2011**
Maturity	**Fair Value**	**Notional Principal**	**Fixed Rate**	**Floating Rate**
2013	**1,969**	**50,000**	**3.73%**	**1.20%**
2013	**(59)**	**6,599**	**1.60%**	**1.20%**
2013	**175**	**50,000**	**0.84%**	**1.20%**
2014	**926**	**60,000**	**1.81%**	**1.28%**
2016	**888**	**20,000**	**2.43%**	**1.28%**
2016	**(586)**	**10,000**	**2.56%**	**1.20%**
2017	**(135)**	**1,701**	**3.08%**	**1.20%**
	$3,178	**$198,300**	**2.15%**	**1.23%**

(000s)				31 Dec 2010
Maturity	Fair Value	Notional Principal	Fixed Rate	Floating Rate
2011	$1,129	$65,000	4.80%	1.20%
2013	2,445	50,000	3.73%	1.19%
2013	24	8,146	1.60%	1.20%
2014	(757)	100,000	1.81%	1.30%
2017	(46)	1,754	3.08%	1.19%
	$2,795	$224,900	3.10%	1.24%

(000s)				1 Jan 2010
Maturity	Fair Value	Notional Principal	Fixed Rate	Floating Rate
2011	$3,544	$65,000	4.80%	0.40%
2013	2,821	50,000	3.73%	0.40%
2013	93	10,005	1.60%	0.40%
2014	(2,499)	100,000	1.81%	0.43%
	$3,959	$225,005	3.09%	0.41%

(000s)	**31 Dec 2011**	31 Dec 2010	1 Jan 2010
	Total fair value	Total fair value	Total fair value
Interest rate swaps (assets)	**$3,958**	$3,598	$6,458
Interest rate swaps (liabilities)	**(780)**	(803)	(2,499)
	$3,178	$2,795	$3,959

Alterna Savings is obligated to pay a floating rate of interest and receive a fixed rate on three swap agreements - the swap agreement with a notional amount of $50,000,000 that matures in 2013, the swap agreement with a notional amount of $60,000,000 that matures in 2014 and the swap agreement with a notional amount of $20,000,000 that matures in 2016. The remaining swaps obligate Alterna Savings to receive a floating rate of interest and pay a fixed rate.

One swap agreement matured and a partial swap with a notional of $40,000,000 was disposed of in 2011 (2010 – No swap agreements matured and no swaps were disposed of).

b) CALL OPTIONS:

(000s)				**31 Dec 2011**		31 Dec 2010		1 Jan 2010	
	Residual Term to Maturity			**Total Notional Principal**	**Fair Value**	Total Notional Principal	Fair Value	Total Notional Principal	Fair Value
	Under 1 year	**1 to 5 years**	**Over 5 years**						
Purchased options (asset)	**$-**	**$25,118**	**$-**	**$25,118**	**$971**	$26,324	$2,727	$20,643	$2,278
Embedded options (liabilities)	**$-**	**$25,118**	**$-**	**$25,118**	**$936**	$26,324	$2,700	$20,643	$2,233

Alterna Savings has issued $25,118,000 of indexed term deposits to its members as of December 31, 2011 (December 31, 2010 - $26,324,000; January 1, 2010 - $20,643,000). These term deposits have maturities of 4 to 5 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.

c) EQUITY OPTIONS:

During 2010, Alterna Savings acquired an option to purchase 431,250 equity instruments totalling $975,000. This option may be exercised at a price of $0.00001 per share for a period of 7 years from the date of grant. Since the option is linked to equity instruments that do not have quoted market values in an active market, it is measured at cost.

d) DESIGNATED ACCOUNTING HEDGES:

For the year ended December 31, 2011, net losses of $176,000 (2010 – $989,000 net gains) were recognized under other income in the consolidated statement of income, representing the amount of the hedge ineffectiveness of the interest rate cash flow hedges. The amount of other comprehensive loss that is expected to be reclassified to the consolidated statement of income over the next 12 months is $582,000 ($492,000 after tax).

26. CAPITAL MANAGEMENT

Alterna Savings' (unconsolidated) 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 the Credit Unions and Caisses Populaires Act (Ontario) (the "Act"). Alterna Savings defines capital to include retained earnings, contributed surplus, general provisions, membership shares and special shares.

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

Alterna Savings is required to hold capital equal to or exceeding the following limits:

	Regulatory Minimum
Capital to total assets	4%
Capital to risk weighted assets	8%

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, 2011, Alterna Savings was in compliance with the Act and regulations with total capital as a percent of assets of 5.19% (2010 – 5.86%) and the total capital as a percent of risk weighted assets of 8.69% (2010 – 9.78%).

Elements of risk weighted capital as of December 31 are:

(000s)	**31 Dec 2011**	31 Dec 2010
Retained earnings	**$86,578**	$82,431
Special shares	**24,059**	23,960
Contributed surplus	**19,282**	19,282
Membership shares	**1,554**	1,578
General provisions	**1,328**	1,817
	$132,801	$129,068

27. COMMITMENTS AND CONTINGENCIES

a) CREDIT INSTRUMENTS:

As at December 31, 2011, the credit instruments approved but not yet disbursed were as follows:

(000s)	Total	Average term	Average rate
Residential mortgage loans	$11,713	4.96 years	2.83%
Commercial demand loans	$51,370	-	Prevailing rates on date disbursed
Commercial mortgage loans	$14,450	4.77 years	Prevailing rates on date disbursed
Lines of credit unfunded	$446,295	-	Prevailing rates on date disbursed

b) CONTINGENCIES:

In the normal course of operations, Alterna Savings becomes involved in various claims and legal proceedings. While the final outcome with respect of claims and legal proceedings pending at December 31, 2011 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 $7,823,000, 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 term 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 is the same as is held for loans. As at December 31, 2011, no liability has been recorded on the consolidated balance sheet as no letters of credit have been called upon.

Credit Card Agreement
In accordance with a credit card service agreement entered into on May 1, 2005 and amended on June 1, 2011, Alterna Savings may from time to time, at its discretion, request to guarantee a credit card account that is declined by Alterna's credit card service provider. Under this guarantee, if a credit card account falls into arrears, the credit card service provider may request that Alterna Savings pay the amount due.

As security for Alterna's obligations for the guaranteed credit card program, a standby letter of credit for the amount of $1,000,000 is in place with our credit card service provider.

Alterna Savings has legal recourse against the credit card account holder if required to pay any amounts in arrears. All credit decisions with respect to guaranteed accounts are made by Alterna Savings. As of December 31, 2011, no credit card accounts have been submitted to Alterna Savings for reimbursement by the credit card service provider.

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.

28. SEGMENT REPORTING

No segment disclosures have been provided. Alterna Savings manages its business as one integrated operating segment as it operates principally in personal and commercial banking in the provinces of Ontario and Quebec. Accordingly, for the purposes of IFRS 8, "Operating Segments", it has only one reporting segment for financial reporting purposes.

29. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

a) ADJUSTMENTS TO THE CONSOLIDATED STATEMENT OF CASH FLOWS:

The transition from CGAAP to IFRS resulted in certain cash flows related to Alterna Savings' securitization activities that were included in investing activities under CGAAP being reflected in operating activities.

b) COMPONENTS OF CASH AND CASH EQUIVALENTS:

(000s)	**31 Dec 2011**	31 Dec 2010	1 Jan 2010
Cash on hand	**$10,443**	$9,664	3,358
Deposit with other financial institutions	**24,330**	28,900	46,429
Marketable securities (original maturities less than 90 days)	**26,079**	43,369	116,435
	$60,852	$81,933	166,222

c) CASH FLOWS PRESENTED ON A NET BASIS:

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

30. 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; and
- its subsidiary, Alterna Bank.

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 of Directors and the members of the senior management team to constitute KMP for purposes of IAS 24, "Related party disclosures".

(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 2011	31 Dec 2010
Short-term employee benefits	**$2,588**	$3,591
Post-employment benefits	**-**	-
Other long-term employee benefits	**-**	-
Termination benefits	**647**	-
Total KMP compensation	**$3,235**	$3,591

(ii) Loans to KMP

There are no loans which 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 2011	31 Dec 2010
(1) Aggregate value of loans outstanding as of balance sheet date	**$4,606**	$4,396
(2) Total value of personal lines of credit facilities as of balance sheet date	**2,235**	2,130
Less: amounts drawn down and included in loan values and included in (1)	**(1,398)**	(1,259)
Net balance available	**$5,443**	$5,267
Aggregate value of loans disbursed during the year:		
Residential mortgages	**$198**	$796
Personal loans	**311**	180
Total	**$509**	$976

(iii) Deposits from KMP

(000s)	31 Dec 2011	31 Dec 2010
Total value of demand, term and registered plans deposits from KMP	**$7,176**	$7,222
Total amount of interest paid on deposits to KMP	**129**	133

b) TRANSACTIONS WITH OTHER RELATED PARTIES:

Transactions between Alterna Savings and its subsidiary Alterna Bank meet the definition of related party transactions. As these transactions are eliminated on consolidation, they are not disclosed in the consolidated financial statements.

c) INFORMATION ON SUBSIDIARY:

Alterna Savings owns 100% of the equity and voting interests in Alterna Bank, which prepares financial statements as of December 31 that are included in the Alterna Savings' consolidated financial statements. Alterna Bank was incorporated in Ontario, Canada and operates primarily in Ontario and Quebec, Canada.

d) OTHER RESTRICTED PARTY DISCLOSURES:

Alterna Savings also employs the definition of restricted party contained in section 75 of Regulation 237/09 to the Act. A restricted party includes a person who is, or has been within the preceding twelve months, a director, officer, or any corporation in which the person owns more than 10% of the voting shares, his or her 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 at posted rates less 2.25%, 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 $4,157,000 (2010 - $4,658,000). There was approximately $111,000 (2010 - $125,000) in interest earned for the year which is recorded under interest income on the consolidated statement of income.

(ii) Expenses Relative to 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 $345,000 (2010 - $312,000) and other expenses incurred totalled $242,000 (2010 - $125,000). As at December 31, 2011, Alterna Savings' Board consisted of 12 Directors (2010 – 15 Directors) and Alterna Bank's Board consisted of 7 Directors (2010 – 9 Directors).

(iii) Executive Compensation

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 names of those officers and employees, their position held and remuneration paid during 2011 are as follows (in thousands of dollars) and in the format prescribed:

Name	Title	Salary*	Bonuses	Benefits
John Lahey	President & Chief Executive Officer	$399	$308	$118
Kimberley Ney	SVP Marketing, Communications & Corporate Social Responsibility	328	32	11
Carl Ramkerrysingh	SVP Personal and Business Services	203	114	18
José Gallant	SVP and Chief Financial Officer	229	52	24
Josette Gauthier	SVP Human Resources	170	35	21

* *Salaries include base salaries and restructuring compensation paid in 2011.*

Executive management includes the President & CEO as well as employees in positions titled Vice-President or Senior Vice-President.

Alterna Savings manages executive compensation in accordance with policies which are reviewed and approved annually by the Board of Directors. 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.

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 of Directors.

31. SELECTED DISCLOSURES

a) LOAN MATURITIES:

The following table provides the contractual loan maturity profile for securitized residential mortgages that were not included in the Alterna Savings' most recent annual consolidated financial statements prepared in accordance with CGAAP:

(000s)	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total Book Value
Securitized residential mortgages as at December 31, 2010	$ -	$ 22,890	$ 30,371	$ -	$ 53,261

b) SECURITIZATION LIABILITY MATURITIES:

The following table provides the contractual liability maturity profile for securitization liabilities.

(000s)					**As at December 31, 2011**
	Within 1 Year	**1 to 3 Years**	**3 to 5 Years**	**Over 5 Years**	**Total**
Canada Mortgage Bond liabilities	**$ -**	**$ 13,397**	**$ 22,739**	**$ -**	**$ 36,136**
Effective yield	**-**	**5.21%**	**3.98%**	**-**	**4.43%**
	$ -	**$ 13,397**	**$ 22,739**	**$ -**	**$ 36,136**

(000s)					As at December 31, 2010
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Canada Mortgage Bond liabilities	$ -	$ 22,890	$ 30,371	$ -	$ 53,261
Effective yield	-	5.22%	4.02%	-	4.54%
	$ -	$ 22,890	$ 30,371	$ -	$ 53,261

(000s)					As at January 1, 2010
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Canada Mortgage Bond liabilities	$ -	$ -	$ 72,881	$ -	$ 72,881
Effective yield	-	-	4.64%	-	4.64%
	$ -	$ -	$ 72,881	$ -	$ 72,881

c) 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, 2011 and December 31, 2010.

(000s)	**As at December 31, 2011**			As at December 31, 2010		
	Within 1 Year	**After 1 year**	**Total**	Within 1 Year	After 1 year	Total
Assets						
Cash and cash equivalents	**$ 60,852**	**$ -**	**$ 60,852**	$ 81,933	$ -	$ 81,933
Investments-FVTPL	**9,217**	**-**	**9,217**	9,485	-	9,485
Investments-AFS	**38,321**	**188,144**	**226,465**	86,096	133,958	220,054
Personal loans	**235,841**	**2,330**	**238,171**	246,278	5,399	251,677
Residential mortgages loans	**358,472**	**580,854**	**939,326**	246,248	624,122	870,370
Securitized residential mortgages	**-**	**36,136**	**36,136**	-	53,261	53,261
Commercial loans	**277,540**	**476,081**	**753,621**	234,197	460,771	694,968
Allowance for impaired loans	**(1,960)**	**-**	**(1,960)**	(2,513)	-	(2,513)
Property and equipment	**-**	**11,701**	**11,701**	-	10,898	10,898
Intangible assets	**-**	**2,985**	**2,985**	-	3,858	3,858
Derivative financial instruments	**-**	**5,904**	**5,904**	-	7,300	7,300
Income tax receivable	**516**	**-**	**516**	-	-	-
Deferred income tax asset	**-**	**1,830**	**1,830**	-	1,916	1,916
Other assets	**9,171**	**-**	**9,171**	9,252	-	9,252
Total assets	**$ 987,970**	**$ 1,305,965**	**$ 2,293,935**	$ 910,976	$ 1,301,483	$ 2,212,459
Liabilities						
Demand deposits	**873,481**	**-**	**873,481**	$ 845,641	$ -	$ 845,641
Term deposits	**352,188**	**149,684**	**501,872**	254,505	218,549	473,054
Registered plans	**401,144**	**304,532**	**705,676**	355,802	322,642	678,444
Borrowings	**10,000**	**-**	**10,000**	-	-	-
Canada Mortgage Bond liabilities	**-**	**36,136**	**36,136**	-	53,261	53,261
Derivative financial instruments	**-**	**1,716**	**1,716**	-	3,503	3,503
Income tax payable	-	-	-	1,578	-	1,578
Deferred income tax liability	-	-	-	-	25	25
Other liabilities	**27,793**	**7,907**	**35,700**	28,697	4,520	33,217
Membership shares	**-**	**1,554**	**1,554**	-	1,578	1,578
Total liabilities	**$ 1,664,606**	**$ 501,529**	**$ 2,166,135**	$ 1,486,223	$ 604,078	$ 2,090,301
Net	**$ (676,636)**	**$ 804,436**	**$ 127,800**	$ (575,247)	$ 697,405	$ 122,158

(000s)	As at January 1, 2010		
	Within 1 Year	After 1 year	Total
Assets			
Cash and cash equivalents	$ 166,222	$ -	$ 166,222
Investments-FVTPL	8,305	-	8,305
Investments-AFS	117,565	34,514	152,079
Personal loans	261,656	5,559	267,215
Residential mortgages loans	206,150	606,168	812,318
Securitized residential mortgages	-	72,881	72,881
Commercial loans	211,045	441,527	652,572
Allowance for impaired loans	(2,857)	-	(2,857)
Property and equipment	-	9,736	9,736
Intangible assets	-	5,726	5,726
Derivative financial instruments	-	8,736	8,736
Income tax receivable	939		939
Deferred income tax asset	-	1,179	1,179
Other assets	6,979	-	6,979
Total assets	$ 976,004	$ 1,186,026	$ 2,162,030
Liabilities			
Demand deposits	$ 815,075	$ -	$ 815,075
Term deposits	252,611	219,670	472,281
Registered plans	285,212	332,041	617,253
Borrowings	30,000	-	30,000
Canada Mortgage Bond liabilities	-	72,881	72,881
Derivative financial instruments	-	4,732	4,732
Other liabilities	28,248	3,352	31,600
Membership shares	-	1,779	1,779
Total liabilities	$ 1,411,146	$ 634,455	$ 2,045,601
Net	$ (435,142)	$ 551,571	$ 116,429

32. EVENTS AFTER THE BALANCE SHEET DATE

There have been no events subsequent to balance sheet date which would have a material effect on the Alterna Savings consolidated financial statements as of December 31, 2011, other than disclosed in note 15b.

33. COMPARATIVE AMOUNTS

Certain 2010 comparative amounts have been reclassified to conform to the consolidated financial statement presentation adopted in 2011.