Financial Statements of

ALTERNA BANK

December 31, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholder of CS Alterna Bank:

We have audited the accompanying financial statements of CS Alterna Bank ("Alterna Bank"), which comprise the balance sheet as at December 31, 2011 and 2010, and January 1, 2010, and the statements of comprehensive income, changes in shareholder's 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 Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Alterna Bank 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 1, 2012

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

	Notes		31-Dec-11		31-Dec-10		01-Jan-10
ASSETS							
					Note 3		Note 3
Cash and cash equivalents	25	**$**	**11,629**	$	11,662	$	30,121
Investments	4		**12,534**		12,308		-
Loans, net of allowance for impaired loans	5,6		**153,828**		153,083		151,639
Property and equipment	7		**424**		191		261
Derivative financial instruments	21		**37**		1,116		103
Income tax receivable			**220**		-		132
Deferred income tax asset	18		**82**		368		68
Other assets	8		**522**		646		482
		$	**179,276**	$	179,374	$	182,806
LIABILITIES AND SHAREHOLDER'S EQUITY							
Liabilities:							
Deposits	9	**$**	**155,706**	$	155,611	$	161,674
Income tax payable			**-**		620		-
Derivative financial instruments	21		**36**		139		101
Deferred income tax liability	18		**-**		25		-
Other liabilities	11		**1,499**		2,822		2,425
			157,241		159,217		164,200
Shareholder's equity:							
Share capital	13		**15,000**		15,000		15,000
Retained earnings			**7,108**		5,159		3,607
Accumulated other comprehensive loss			**(73)**		(2)		(1)
			22,035		20,157		18,606
		$	**179,276**	$	179,374	$	182,806

On behalf of the Board:

Doug Ellis
Director

Bill Mulvihill
Director

(See accompanying notes to the financial statements)

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

	Note	**31-Dec-11**	**31-Dec-10**
			Note 3
Interest income	14	**$ 6,922**	$ 7,152
Investment income	15	**275**	158
		7,197	7,310
Interest expense	14	**2,744**	3,167
Net interest income		**4,453**	4,143
Loan costs		**151**	93
		4,302	4,050
Other income	16	**3,260**	2,884
		7,562	6,934
Operating expenses	17	**2,264**	4,564
Income before income taxes		**5,298**	2,370
Provision for income taxes	18		
Current		**582**	1,092
Future		**259**	(274)
		841	818
Net income		**$ 4,457**	$ 1,552

(See accompanying notes to the financial statements)

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

		31-Dec-11		31-Dec-10
Net income	**$**	**4,457**	$	1,552
Other comprehensive loss, net of tax [1]:				
Change in unrealized gains and losses on available-for-sale securities		**(71)**		(1)
		(71)		(1)
Comprehensive income	**$**	**4,386**	$	1,551

[1] Net of income tax expense of $25 (2010 - $nil).

(See accompanying notes to the financial statements)

ALTERNA BANK
Statement of Changes in Shareholder's Equity (in thousands of dollars)
December 31, 2011

	31-Dec-11	31-Dec-10
Share capital:		
Balance, beginning and end of year	**$ 15,000**	$ 15,000
Retained earnings, net of tax:		
Balance at beginning of year, as previously reported	**5,159**	3,337
Transitional adjustment on adoption of new accounting policies (IFRS)	**-**	270
Balance at beginning of year, as restated	**5,159**	3,607
Dividends	**(2,508)**	-
Net income	**4,457**	1,552
Balance, end of year	**7,108**	5,159
Accumulated other comprehensive loss, net of tax:		
Balance at beginning of year	**(2)**	(1)
Other comprehensive loss	**(71)**	(1)
Balance, end of year	**(73)**	(2)
Shareholder's equity	**$ 22,035**	$ 20,157

(See accompanying notes to the financial statements)

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

		31-Dec-11		31-Dec-10
Operating activities:				
Net income	$	4,457	$	1,552
Add (deduct) non-cash items:				
Allowance for impaired loans		95		52
Amortization of				
Property and equipment		90		70
Deferred charges		90		(31)
Decrease (increase) in assets				
Interest receivable		(42)		(40)
Deferred income taxes		262		(276)
Loans, net of allowance for impaired loans		(903)		(1,599)
Assets relating to derivative financial instruments		1,079		(38)
Increase (decrease) in liabilities				
Interest payable		(15)		(397)
Deposits		96		(6,063)
Liabilities relating to derivative financial instruments		(177)		38
Other items, net		(2,009)		581
Cash provided by (used in) operating activities		**3,023**		**(6,151)**
Investing activities:				
Proceeds from maturity and sale of investments		12,308		-
Purchase of investments		(12,534)		(12,308)
Acquisition of property and equipment		(322)		-
Cash used in investing activities		**(548)**		**(12,308)**
Financing activities:				
Dividend on common shares		(2,508)		-
Cash applied to financing activities		**(2,508)**		**-**
Decrease in cash and cash equivalents during the period		(33)		(18,459)
Cash and cash equivalents, beginning of year		11,662		30,121
Cash and cash equivalents, end of year	**$**	**11,629**	**$**	**11,662**
Supplemental information:				
Interest paid	$	2,759	$	3,564
Interest received	$	6,964	$	7,192
Income taxes paid	$	1,454	$	425

(See accompanying notes to the financial statements)

1. CORPORATE INFORMATION

CS Alterna Bank, a member of the Canada Deposit Insurance Corporation ("CDIC"), operates under the name "Alterna Bank". It is a Schedule 1 Bank and received letters patent from the Minister of Finance of Canada to operate under the Bank Act on October 2, 2000.

The registered office address of Alterna Bank is 400 Albert Street, Ottawa, Ontario, K1R 5B2. The nature of Alterna Bank's operations and principal activities are the provision of deposit taking facilities and loan facilities to the clients of the bank throughout Ontario and Quebec.

The 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 1, 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 financial statements of Alterna Bank 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 financial statements include disclosure for the first-time adoption of International Financial Reporting Standards ("IFRS") including a reconciliation from previously applied Canadian Generally Accepted Accounting Principles ("CGAAP").

Alterna Bank presents its balance sheet broadly in order of liquidity.

Financial assets and liabilities are offset, with the net amount reported in the 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 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 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 Bank prepared its financial statements in accordance with Canadian generally accepted accounting principles ("CGAAP"). Alterna Bank followed the provisions of IFRS 1, "First Time Adoption of IFRS", in preparing its opening IFRS balance sheet as of the date of transition, January 1, 2010. Certain of Alterna Bank's IFRS accounting policies used for the opening 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 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 Bank's 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 Bank.

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

(iii) Redesignation of previously recognized financial instruments
At transition, Alterna Bank designated certain of its previously recognized financial assets and liabilities as available-for-sale under the provisions of IAS 39, "Financial Instruments: Recognition and Measurement".

(iv) Fair value measurement of financial assets or financial liabilities at initial recognition
Alterna Bank 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.

(v) Effect of the transitions to IFRS
Reconciliations of Alterna Bank's 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 Bank's 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) 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.

c) 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.

d) 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 classified 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.

Alterna Bank has not designated any financial assets or liabilities as FVTPL.

(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 HFT. 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 statement of income. For financial assets classified as AFS, changes in carrying amounts relating to changes in foreign exchange rate are recognized in the 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 statement of income. The losses arising from impairment of such investments are recognized in the statement of income as an impairment loss.

Alterna Bank 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 Bank 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 statement of income when the inputs become observable, or when the instrument is derecognized.

e) IMPAIRMENT OF FINANCIAL ASSETS

At each balance sheet date, Alterna Bank 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 principal amounts less an allowance for impaired loans.

Alterna Bank 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 Bank 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. The 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 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. Loans that were found not to be impaired when evaluated on an individual basis are included in the scope of this component of the allowance.

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 Bank, the loan and any associated allowance is written off. Subsequent recoveries, if any, are credited to the allowance and recorded in the 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 amount accordingly. Such reversal is recognized in the 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 the new carrying amount using the rate of interest used to discount the future cash flows for purposes 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 Bank 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 Bank assesses at each balance sheet date whether there is objective evidence that 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 used 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 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 statement of income. Impairment losses on equity investments classified as AFS are not reversed through the statement of income; increases in their fair value after impairment are recognized in OCI.

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

f) 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 Bank 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 Bank has transferred substantially all the risks and rewards of the asset, or
  - Alterna Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When Alterna Bank 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 Bank's continuing involvement in the asset. In that case, Alterna Bank 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 Bank 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 Bank 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 statement of income.

g) DERIVATIVES

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 balance sheet.

Gains and losses arising from changes in the fair value of a derivative are recognized as they arise in the statement of income.

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 statement of income. The only embedded derivatives are the options embedded in Alterna Bank's indexed term deposits offered to clients (note 21a) which are carried at amortized cost.

h) FOREIGN CURRENCY

The financial statements are presented in Canadian dollars, which is Alterna Bank's 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.

i) PROPERTY AND EQUIPMENT

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is generally recognized using the straight-line basis over the estimated useful lives of the assets. The range of estimated useful lives of the assets is as follows:

Furniture and equipment	5 to 10 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. Gains and losses on disposals are included in other income.

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

Property and equipment 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 statement of income in the year the asset is derecognized.

j) 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 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.

k) 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 Bank 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 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.

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.

l) 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 the recognition of income and expenses.

(i) Interest income and interest expense
Interest income and expense are recognized in the statement of income for all interest-bearing financial instruments, except for those designated as FVTPL, using the effective interest method. The effective interest method calculates the amortized cost of a financial asset or liability by 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 considered 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, commissions and other revenues are recognized as revenue when the related services are performed or are provided.

m) 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 financial statements. The most significant uses of judgment and estimates are as follows:

(i) Going concern
Alterna Bank's management has made an assessment of Alterna Bank's ability to continue as a going concern and is satisfied that Alterna Bank 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 Alterna Bank's ability to continue as a going concern. Therefore, the 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 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 and prepayment rates. The valuation of financial instruments is described in more detail in note 19.

(iii) Impairment losses on loans and advances
Alterna Bank reviews its individually significant loans and advances at each balance sheet date to assess whether an impairment loss should be recorded in the 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 Bank 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 6.

(iv) Impairment of available-for-sale investments
Alterna Bank 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.

(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 financial statements. None of these is expected to have a significant effect on the financial statements of Alterna Bank, except for IFRS 13 “Fair value measurement” which become mandatory for Alterna Bank’s 2013 financial statements and are expected to impact the classification and measurement of financial assets. Alterna Bank 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 Bank prepared its financial statements in accordance with CGAAP. This is the first time Alterna Bank has prepared its financial statements using IFRS.

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

CGAAP	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. Under CGAAP, Alterna Bank expensed the legal fees and appraisal fees paid on behalf of the members as incurred in accordance with AcG-4 of CGAAP.	Transaction costs are added to the carrying value of financial instruments other than instruments designated as FVTPL. Under IFRS, Alterna Bank's 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 HFT before the transaction. Transaction costs in relation to financial assets and financial liabilities designated as HFT are recognized in the statement of income upon initial recognition.	Financial assets and financial liabilities may be designated at 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. Transactions costs in relation to financial assets and financial liabilities designated as FVTPL are recognized in the statement of income upon initial recognition.
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 statement of income. Impairment losses on equity instruments are not reversible. Foreign exchange gains or losses are recorded in the 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.

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.	IFRS requires assessing loans that are individually significant, and individually or collectively 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.
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 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.
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 Bank 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 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 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 statement of income and OCI respectively.

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

(i) Reconciliation of 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		$ 30,121	$ -	$ 30,121
Loans, net of allowance for impaired loans	(i), (iii)	151,265	374	151,639
Property and equipment		261	-	261
Derivative financial instruments		103	-	103
Income tax receivable	(ii)	-	132	132
Deferred income tax asset	(iv)	172	(104)	68
Other assets	(ii)	614	(132)	482
		$ 182,536	$ 270	$ 182,806
LIABILITIES AND SHAREHOLDER'S EQUITY				
Liabilities:				
Deposits		$ 161,674	$ -	$ 161,674
Derivative financial instruments		101	-	101
Other liabilities		2,425	-	2,425
		164,200	-	164,200
Shareholder's equity:				
Share capital		15,000	-	15,000
Retained earnings	(i), (iii), (iv)	3,337	270	3,607
Accumulated other comprehensive income		(1)	-	(1)
		$ 18,336	$ 270	$ 18,606
		$ 182,536	$ 270	$ 182,806

(ii) Reconciliation of 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		$ 11,662	$ -	$ 11,662
Investments		12,308	-	12,308
Loans, net of allowance for impaired loans	(i), (iii)	152,726	357	153,083
Property and equipment		191	-	191
Derivative financial instruments		1,116	-	1,116
Deferred income tax asset	(iv)	445	(77)	368
Other assets		646	-	646
		$ 179,094	$ 280	$ 179,374
LIABILITIES AND SHAREHOLDER'S EQUITY				
Liabilities:				
Deposits		$ 155,611	$ -	$ 155,611
Income tax payable	(ii)	-	620	620
Derivative financial instruments		139	-	139
Deferred income tax liability	(iv)	-	25	25
Other liabilities	(ii)	3,442	(620)	2,822
		159,192	25	159,217
Shareholder's equity:				
Share capital		15,000	-	15,000
Retained earnings	(i), (iii), (iv)	4,904	255	5,159
Accumulated other comprehensive income		(2)	-	(2)
		$ 19,902	$ 255	$ 20,157
		$ 179,094	$ 280	$ 179,374

(iii) Reconciliation of 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	(i)	$ 7,172	$ (20)	$ 7,152
Investment income		158	-	158
		7,330	(20)	7,310
Interest expense		3,167	-	3,167
Net interest income		4,163	(20)	4,143
Loan costs	(iii)	96	(3)	93
		4,067	(17)	4,050
Other income		2,884	-	2,884
		6,951	(17)	6,934
Operating expenses		4,564	-	4,564
Income before income taxes		2,387	(17)	2,370
Provision for income taxes:				
Current		1,094	(2)	1,092
Deferred		(274)	-	(274)
		820	(2)	818
Net income		$ 1,567	$ (15)	$ 1,552
Other comprehensive (loss) income, net of tax:				
Change in unrealized gains and losses on available-for-sale securities		(1)	-	(1)
		$ (1)	$ -	$ (1)
Comprehensive income		$ 1,566	$ (15)	$ 1,551

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 clients 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 $106,000 as of January 1, 2010 and $20,000 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 balance sheet. Accordingly, this account has been reclassified and shown separately on the balance sheet.

(iii) 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 Bank’s provisioning level has decreased by $268,000 as at January 1, 2010 and by $271,000 cumulatively as at December 31, 2010.

(iv) 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.

(v) 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:			
Loan loss allowance adjustment	(iii)	$3	$268
Deferral of transaction costs (mortgage incentive fees)	(i)	(20)	106
Deferred income tax asset due to above changes	(iv)	2	(104)
Net impact on retained earnings		$(15)	$270

(vi) Effect on statement of cash flows

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

4. INVESTMENTS

(000s)	**31 Dec 2011**	31 Dec 2010	1 Jan 2010
Designated as available-for-sale:			
Money market instruments	**$12,534**	$12,308	$ -

All of Alterna Bank’s investments were classified as AFS and measured and recorded at fair value. No impairments were recognized during 2011 or 2010.

5. LOANS

(000s)	**31 Dec 2011**	31 Dec 2010	1 Jan 2010
Personal loans	**$18,019**	$18,996	$17,892
Residential mortgage loans	**115,741**	112,597	110,853
Commercial loans	**20,279**	21,685	23,079
	154,039	153,278	151,824
Less allowance for impaired loans (note 6)	**(211)**	(195)	(185)
	$153,828	153,083	151,639

6. 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	**$195**	**$-**	**$-**	**$195**
Less: Loans written off	**(88)**	**(1)**	**-**	**(89)**
Add: Recoveries on loans previously written off	**10**	**-**	**-**	**10**
Add: Allowance charged to operations	**93**	**2**	**-**	**95**
Balance, end of year	**$210**	**$1**	**$-**	**$211**
Individual impairment				**$128**
Collective impairment				**83**
				$211

(000s)				31 Dec 2010
	Personal Loans	Residential Mortgage Loans	Commercial Loans	Total
Balance, beginning of year	$185	$-	$-	$185
Less: Loans written off	(56)	-	-	(56)
Add: Recoveries on loans previously written off	14	-	-	14
Add: Allowance charged to operations	52	-	-	52
Balance, end of year	$195	$-	$-	$195
Individual impairment				$84
Collective impairment				111
				$195

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	**$128**	$84	$73
Residential mortgage loans	**-**	209	116
Commercial loans	**-**	-	-
	$128	$293	$189

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	**$1,108**	**$183**	**$-**	**$1,291**
Residential mortgage loans	**4,030**	**284**	**237**	**4,551**
Commercial loans	**157**	**-**	**-**	**157**
	$5,295	**$467**	**$237**	**$5,999**

(000s)				31 Dec 2010
	1-29 days	30-89 days	90 days and greater	Total
Personal loans	$1,071	$118	$-	$1,189
Residential mortgage loans	3,464	528	-	3,992
Commercial loans	118	-	-	118
	$4,653	$646	$-	$5,299

(000s)				1 Jan 2010
	1-29 days	30-89 days	90 days and greater	Total
Personal loans	$1,188	$134	$-	$1,322
Residential mortgage loans	4,393	525	131	5,049
Commercial loans	-	-	-	-
	$5,581	$659	$131	$6,371

d) COLLATERAL

The credit enhancements Alterna Bank 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	**96%**	97%	96%
Amounts of loans restructured during the period that would otherwise have been past due or impaired (000s)	**$-**	$-	$9
Collateral repossession: carrying value at balance sheet date of collateral properties possessed during the period (000s)	**$-**	$-	$-

7. PROPERTY AND EQUIPMENT

(000s)	**Furniture and equipment**	**Leasehold Improvements**	**Total**
Cost:			
Balance as of January 1, 2011	**$364**	**$447**	**$811**
Additions	**84**	**247**	**331**
Disposals	**(66)**	**-**	**(66)**
Balance as of December 31, 2011	**382**	**694**	**1,076**
Depreciation and impairment:			
Balance as of January 1, 2011	**287**	**333**	**620**
Depreciation	**30**	**60**	**90**
Impairment losses	**(22)**	**-**	**(22)**
Disposals	**(36)**	**-**	**(36)**
Balance as of December 31, 2011	**259**	**393**	**652**
Net book value:			
Balance as of January 1, 2011	**77**	**114**	**191**
Balance as of December 31, 2011	**$123**	**$301**	**$424**

(000s)	Furniture and equipment	Leasehold Improvements	Total
Cost:			
Balance as of January 1, 2010	$364	$447	$811
Balance as of December 31, 2010	364	447	811
Depreciation and impairment:			
Balance as of January 1, 2010	264	286	550
Depreciation	23	47	70
Balance as of December 31, 2010	287	333	620
Net book value:			
Balance as of January 1, 2010	100	161	261
Balance as of December 31, 2010	$77	$114	$191

Depreciation charged to income in 2011 was $90,000 (2010 - $70,000) and is included in administration and occupancy expenses under operating expenses on the statement of income.

Impairment losses on property and equipment are recorded within administration and occupancy expenses under operating expenses on the statement of income.

The gross carrying amount of fully depreciated property and equipment that are still in use is $269,000 as of December 31, 2011 (December 31, 2010 - $108,000).

8. OTHER ASSETS

(000s)	**31 Dec 2011**	31 Dec 2010	1 Jan 2010
Accrued interest receivable	**$283**	$241	$201
Other	**239**	405	281
	$522	$646	$482

9. DEPOSITS

(000s)	31 Dec 2011	31 Dec 2010	1 Jan 2010
Demand deposits	**$48,615**	$50,863	$62,815
Term deposits	**91,622**	90,214	85,967
Registered plans	**15,469**	14,534	12,892
	$155,706	$155,611	$161,674

As at December 31, 2011, Alterna Bank held US dollar deposits from clients of US$624,000 (December 31, 2010 – US$370,000; January 1, 2010 US$282,000) with a carrying amount of $635,000 (December 31, 2010 - $368,000; January 1, 2010 - $296,000).

10. BORROWING FACILITIES

Alterna Bank has access to a $30,500,000 credit facility with Central 1 Credit Union, consisting of operating lines of credit of CDN $490,000 and US $10,000 and a term loan of CDN $30,000,000.

The lines of credit are renewable every 12 months, bear interest at prime rate and term loan advance bear an annual rate of interest equal to the Central 1's cost of funds plus an applicable margin at the time of borrowing. The credit facility is guaranteed by Alterna Bank's parent company, Alterna Savings and Credit Union Limited ("Alterna Savings"). There was no outstanding balance against these facilities at the end of the year (December 31, 2010 - $nil; January 1, 2010 - $nil).

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

11. OTHER LIABILITIES

(000s)	31 Dec 2011	31 Dec 2010	1 Jan 2010
Accrued interest payable	**$980**	$995	$1,392
Trade payables and accrued expenses	**369**	602	452
Due to parent company	**150**	183	581
Deferred revenue (note 26d)	**-**	1,042	-
	$1,499	$2,822	2,425

12. LEASES

OPERATING LEASE OBLIGATIONS

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

(000s)	31 Dec 2011	31 Dec 2010
Future minimum lease payments		
Within one year	**$56**	$58
From one to five years	**60**	116
Later than five years	**-**	-
Total future minimum lease payments	**$116**	$174

During 2011, $93,000 was recognized as an expense, under occupancy costs in the statement of income in respect of operating leases (2010 - $86,000).

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

13. SHARE CAPITAL

The authorized share capital of Alterna Bank consists of an unlimited number of common shares, which have standard voting rights.

As at December 31, 2011, December 31, 2010 and January 1, 2010, there were 1,500,001 common shares issued and outstanding: 1,500,000 with a stated value of $10 per share and one common share with a stated value of $1 per share. There are no issued shares that have not been fully paid.

14. INTEREST INCOME AND INTEREST EXPENSE

(000s)	**31 Dec 2011**	31 Dec 2010
Interest Income:		
Personal loans	**$799**	$718
Residential mortgage loans	**4,988**	5,208
Commercial loans	**1,135**	1,226
	$6,922	$7,152
Interest Expense:		
Demand deposits	**$492**	$468
Term deposits	**1,894**	2,323
Registered plans	**358**	376
	$2,744	$3,167

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.

15. INVESTMENT INCOME

(000s)	**31 Dec 2011**	31 Dec 2010
Interest on financial assets available-for-sale	**$275**	$157
Other	**-**	1
	$275	$158

16. OTHER INCOME

(000s)	**31 Dec 2011**	31 Dec 2010
Gain on sale of FAS business (note 26d)	**$2,784**	$-
Service charges	**220**	230
Commissions	**213**	2,600
Foreign currency exchange gains	**21**	30
Other	**22**	24
	$3,260	$2,884

17. OPERATING EXPENSES

(000s)	**31 Dec 2011**	31 Dec 2010
Administration	**$1,008**	$1,251
Salaries and benefits	**845**	2,910
Marketing and community relations	**210**	239
Occupancy	**201**	164
	$2,264	$4,564

18. INCOME TAXES

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

(000s)	**31 Dec 2011**	31 Dec 2010	1 Jan 2010
Derivatives	**$34**	$37	$28
Property and equipment	**23**	29	36
Allowance for impaired loans	**25**	29	33
Deferred revenue	**-**	276	-
Other	**-**	(28)	(29)
	$82	$343	$68
On Balance Sheet:			
Deferred Income Tax Asset	**82**	368	68
Deferred Income Tax Liability	**-**	(25)	-
Net Deferred Income Tax	**$82**	$343	$68

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	**$1,501**	**28%**	$730	31%
Impact of gain on sale of FAS business (note26d)	**(788)**	**(15%)**	-	-%
Provincial Small Business Incentives	**(21)**	**-%**	-	-%
Rate differential	**8**	**-%**	46	2%
Prior years' adjustments	**7**	**-%**	51	2%
Permanent differences	**2**	**-%**	5	-%
Other – net	**132**	**2%**	(14)	(1%)
	$841	**15%**	$818	34%

On Statement of Income:		
Current Income Tax	**582**	1,092
Deferred Income Tax	**259**	(274)
Provision for income taxes	**$841**	$818

The deferred income tax related to items charged 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	**$25**	$-
	$25	$-

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".

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out in the table below represent the estimated fair values of the financial instruments of Alterna Bank 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	**$11,629**	**$11,629**	$11,662	$11,662	$30,121	$30,121
Investments	**12,534**	**12,534**	12,308	12,308	-	-
Designated as FVTPL:						
Derivative financial instruments						
- purchased options	**37**	**37**	141	141	103	103
- equity options	**-**	**-**	975	975	-	-
Loans and receivables:						
Loans						
- personal loans	**18,019**	**18,124**	18,996	19,069	17,982	18,062
- residential mortgage loans	**115,741**	**120,130**	112,597	117,053	110,763	119,364
- commercial loans	**20,279**	**21,194**	21,685	22,836	23,079	25,036
TOTAL ASSETS	**$178,239**	**$183,648**	$178,364	$184,044	$182,048	$192,686
Other liabilities:						
Deposits						
- demand deposits	**$48,615**	**$48,615**	$50,863	$50,863	$62,815	$62,815
- term deposits	**91,622**	**91,964**	90,214	90,317	85,967	86,470
- registered plans	**15,469**	**15,607**	14,534	14,670	12,892	13,042
Designated as FVTPL:						
Derivative financial instruments						
-embedded options	**36**	**36**	139	139	101	101
TOTAL LIABILITIES	**$155,742**	**$156,222**	$155,750	$155,989	$161,775	$162,698

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 - 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 AFS	**$-**	**$12,534**	**$-**	**$12,534**
Derivative financial instruments				
- purchased options	**-**	**37**	**-**	**37**
Total financial assets	**$-**	**$12,571**	**$-**	**$12,571**
Financial liabilities :				
Derivative financial instruments				
- embedded options	**($-)**	**($36)**	**($-)**	**($36)**
Total financial liabilities	**($-)**	**($36)**	**($-)**	**($36)**

December 31, 2010 (000s)	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial investments AFS	$-	$12,308	$-	$12,308
Derivative financial instruments				
- purchased options	-	141	-	141
Total financial assets	$-	$12,449	$-	$12,449
Financial liabilities :				
Derivative financial instruments				
- embedded options	($-)	($139)	($-)	($139)
Total financial liabilities	($-)	($139)	($-)	($139)

January 1, 2010 (000s)	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial instruments				
- purchased options	-	103	-	103
Total financial assets	$-	$103	$-	$103
Financial liabilities :				
Derivative financial instruments				
- embedded options	($-)	($101)	($-)	($101)
Total financial liabilities	($-)	($101)	($-)	($101)

20. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Alterna Bank 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 Bank 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 Bank, the three main asset classes exposed to credit risk are loans, investments and derivative financial instruments on the balance sheet.

Alterna Bank's credit risk management 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 Bank 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, $4,000,000 in commercial mortgage loans and collateral demand or term loans per borrower and $4,000,000 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 and connected borrowers and a credit review process. This review ensures that the borrower complies with internal policy and underwriting standards. Alterna Bank 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 clients to meet interest and principal repayment obligations and by changing these lending limits where appropriate.

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

Alterna Bank 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 the higher of 20% of the total portfolio or a policy stated limit of $2,000,000 to $10,000,000 commensurate with the issuer's credit ratings.

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 Bank does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Alterna Bank 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 48% (2010 - 49%) of the residential mortgages are insured by mortgage insurance companies. Alterna Bank monitors the concentration risk from commercial loans by setting maximum exposure limits for total loan balances for each industry. The carrying amount of financial assets recorded in the financial statements excluding the amount of the insured mortgages, net of impairment losses, represents Alterna Bank's maximum exposure to credit risk without taking account of the value of any collateral obtained. The maximum exposure to credit risk was $98,253,000 at December 31, 2011 (2010 - $97,928,000).

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

Alterna Bank's interest rate risk management objective is to maximize interest margin while complying with the approved interest rate risk policy limits. Alterna Bank uses interest rate derivatives such as 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 Bank reports the interest rate risk against policy limits to the Asset Liability Committee ("ALCO") on a monthly basis and to the Board on a quarterly basis.

Alterna Bank's maximum tolerable exposure to interest rate risk for the net income over twelve months is restricted to 5% of average forecasted net interest income with a 95% confidence interval to control the short-term interest rate risk. Its maximum tolerable exposure to interest rate risk on the entire balance sheet is restricted to 7% of equity to control the long-term interest rate risk. As of December 31, 2011, the results for these measures were 1.97% (2010 – 0.47%) and 1.82% (2010 – 2.57%), respectively. Alterna Bank was in compliance with the policy as at December 31, 2011.

The following table details Alterna Bank's 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. 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)	Non-interest rate sensitive	Variable rate demand	Under 3 months	3 to 12 months	1 to 5 years	Over 5 years	31 Dec 2011 Total	31 Dec 2010 Total
Cash and cash equivalents	$2,942	$8,687	$-	$-	$-	$-	$11,629	$11,662
Interest Rates	-%	1.07%	-%	-%	-%	-%	1.07%	0.81%
Investments	$-	$-	$-	$6,258	$6,276	$-	$12,534	$12,308
Interest Rates	-%	-%	-%	1.28%	1.72%	-%	1.5%	1.15%
Personal loans	$-	$16,674	$43	$91	$1,001	$-	$17,809	$18,800
Interest Rates	-%	3.67%	11.1%	6.72%	4.61%	-%	3.76%	4.37%
Residential mortgage loans	$-	$17,020	$3,258	$18,795	$76,667	$-	$115,740	$112,598
Interest Rates	-%	2.59%	4.59%	4.73%	4.3%	-%	4.13%	4.49%
Commercial loans	$-	$697	$1,124	$6,354	$11,918	$186	$20,279	$21,685
Interest Rates	-%	3.26%	5.55%	5.76%	5.4%	5.72%	5.45%	5.55%
Other	$1,248	$37	$-	$-	$-	$-	$1,285	$2,321
TOTAL ASSETS	$4,190	$43,115	$4,425	$31,498	$95,862	$186	$179,276	$179,374
Deposits	$-	$52,405	$4,516	$32,599	$66,186	$-	$155,706	$155,611
Interest Rates	-%	1.01%	2.56%	1.72%	2.07%	-%	1.66%	1.79%
Other	$1,499	$36	$-	$-	$-	$-	$1,535	$3,606
Shareholder's equity	$22,035	$-	$-	$-	$-	$-	$22,035	$20,157
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$23,534	$52,441	$4,516	$32,599	$66,186	$-	$179, 276	$179,374
MATCHING GAP	($19,344)	($9,326)	($91)	($1,101)	$29,676	$186	$-	$-

Sensitivity Analysis - Based on Alterna Bank' 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 $233,000 and $210,000 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 $245,000 and $218,000, 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 Bank's net income is exposed to currency risk because of clients' US dollar deposits.

Alterna Bank mitigates currency risk by investing in offsetting foreign denominated financial instruments of similar terms. Currency risk is managed in accordance with the Structural Risk Management Policy. The policy is reviewed and approved annually by the Board.

Alterna Bank measures currency risk based on the percentage of foreign denominated financial assets against similar 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 foreign exchange rate change, Alterna Bank's net income exposure is minimal.

c) LIQUIDITY RISK

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

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

Alterna Bank maintains the higher of 10% of total assets or the three month cumulative funding gap as measured by a maturity laddering model, in liquid assets such as cash, Treasury bills and other highly marketable securities. As of December 31, 2011, the percentage of liquid assets to total assets was 13.48% (2010 – 13.27%). For the contractual maturities of assets and liabilities, please refer to the table under note 20 b) 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 21.

(000s)					**31 Dec 2011**	31 Dec 2010
	Less than 1 year	**1 to 5 years**	**Over 5 years**	**No specified maturity**	**Total**	Total
Deposits	**$37,115**	**$66,186**	**$-**	**$52,405**	**$155,706**	$155,611

21. DERIVATIVE FINANCIAL INSTRUMENTS

Alterna Bank uses derivative financial instruments such as 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 Bank:

(000s)	**31 Dec 2011**		31 Dec 2010		1 Jan 2010	
	Carrying Value		Carrying Value		Carrying Value	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
Call options	**$37**	**$36**	$141	$139	$103	$101
Equity options	**-**	**-**	975	-	-	-
	$37	**$36**	$1,116	$139	$103	$101

a) CALL OPTIONS

(000s)				**31 Dec 2011**		31 Dec 2010		1 Jan 2010	
	Residual Term to Maturity								
	Under 1 year	**1 to 5 years**	**Over 5 years**	**Total Notional Principal**	**Fair Value**	Total Notional Principal	Fair Value	Total Notional Principal	Fair Value
Purchased options (asset)	**$-**	**$882**	**$-**	**$882**	**$37**	$1,124	$141	640	103
Embedded options (liabilities)	**$-**	**$882**	**$-**	**$882**	**$36**	$1,124	$139	640	101

Alterna Bank has issued $882,000 of indexed term deposits to its clients as of December 31, 2011 (December 31, 2010 - $1,124,000; January 1, 2010 - $640,000). These term deposits have maturities of 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 Bank uses purchased call options on the above indices with equivalent maturities to offset the exposure associated with these products.

b) EQUITY OPTIONS

During 2010, Alterna Bank acquired an option to purchase 431,250 equity instruments totalling $975,000. This option was exercisable at a price of $0.00001 per share for a period of 7 years from the date of grant. Since the option was linked to equity instruments that did not have quoted market values in an active market, it was measured at cost. On January 1, 2011, the option was sold to Alterna Savings as part of the sale of its Financial Advisory Services business (note 26d).

c) CREDIT EXPOSURE

OSFI accounting guideline D-6 *Derivatives Disclosure* requires all federally regulated financial institutions including banks to disclose the positive replacement cost, credit equivalent amount and the risk-weighted equivalent by class of derivative instrument. Alterna Bank had the following derivatives bearing a positive replacement cost as at December 31:

December 31, 2011			
(000s)	**Replacement Cost**	**Credit Equivalent Amount**	**Risk-Weighted Amount**
Purchased options	$38	$109	$22
	$38	$109	$22

December 31, 2010			
(000s)	Replacement Cost	Credit Equivalent Amount	Risk-Weighted Amount
Purchased options	$143	$226	$45
Equity options	975	1,073	1,073
	$1,118	$1,299	$1,118

January 1, 2010			
(000s)	Replacement Cost	Credit Equivalent Amount	Risk-Weighted Amount
Purchased options	$103	$155	$31
	$103	$155	$31

Replacement cost represents the cost of replacing all contracts that have a positive fair value, using current market rates. It represents in effect the unrealized gains on Alterna Bank's derivative instruments.

Credit equivalent amount represents the total replacement cost plus an amount representing the potential future credit exposure, as outlined in OSFI's Capital Adequacy Guideline.

Risk-weighted amount represents the credit equivalent amount, weighted based on the creditworthiness of the counterparty, as prescribed by OSFI.

22. CAPITAL MANAGEMENT

Alterna Bank's capital management objective is to ensure the long term viability of the company and the security of client 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 Bank Act (the "Act") and OSFI regulations. Alterna Bank defines capital to include share capital, retained earnings, and accumulated other comprehensive income.

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

The policy requires Alterna Bank to hold capital subject to the following limits:

Asset to capital multiple	Maximum of 12.5
Capital to risk weighted assets	Minimum of 16%

In addition, Alterna Bank 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.

Total capital includes Tier 1 and Tier 2 capital, net of certain deductions. Tier 1 capital represents more permanent forms of capital, and primarily includes common shareholders' equity and preferred shares less deductions required under Basel II. Tier 2 capital is typically comprised of subordinated debentures and the eligible portion of the general allowance for credit losses. The Tier 1 Capital Ratio and Total Capital Ratio are the primary capital measures monitored by Alterna Bank's regulator.

The Tier 1 Capital Ratio is defined as Tier 1 capital divided by risk-weighted assets. The Total Capital Ratio is defined as total capital divided by risk-weighted assets.

Basel II Regulatory Capital and Risk-Weighted Assets:

(000s)	**31 Dec 2011**	31 Dec 2010
Tier 1 Capital	**$22,108**	$19,904
Tier 2 Capital	**-**	-
Total Capital	**22,108**	19,904
Total Risk-Weighted Assets	**68,905**	70,088
Tier 1 Capital Ratio	**32.1%**	28.4%
Total Capital Ratio	**32.1%**	28.4%

As at December 31, 2011, Alterna Bank's assets to capital multiple was 8 (2010 – 9). Alterna Bank was in compliance with policy, the Act and regulations regarding the asset to capital multiple and total capital as a percent of risk weighted assets. In addition, Alterna Bank complied with these requirements throughout the year.

23. 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	$1,299	5 years	2.84%
Lines of credit unfunded	$15,206	-	Prevailing rates on date disbursed

b) CONTINGENCIES

In the normal course of operations, Alterna Bank 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 Bank's financial position or results of operations.

c) INDEMNIFICATION AGREEMENTS

In the normal course of its operations, Alterna Bank provides indemnification agreements to counterparties in certain transactions such as purchase contracts, service agreements and sales of assets. These indemnification agreements require Alterna Bank 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 Bank 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 Bank from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, Alterna Bank has not made any significant payments under such indemnification agreements. No amount has been accrued with respect to these indemnification agreements.

24. SEGMENT REPORTING

No segment disclosures have been provided. Alterna Bank 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.

25. NOTES TO STATEMENT OF CASH FLOWS

a) COMPONENTS OF CASH AND CASH EQUIVALENTS

(000s)	31 Dec 2011	31 Dec 2010	1 Jan 2010
Cash on hand	**$2,942**	$2,771	$3,429
Marketable securities (original maturities less than 90 days)	**8,687**	8,891	26,692
	$11,629	$11,662	$30,121

b) CASH FLOWS PRESENTED ON A NET BASIS

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

26. 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 Bank's 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 parent company, Alterna Savings.

Alterna Bank 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 of 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 bank, 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 Bank 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 directly charged to Alterna Bank 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	**$74**	$190
Post-employment benefits	**-**	-
Other long-term employee benefits	**-**	-
Termination benefits	**-**	-
Total KMP compensation	**$74**	$190

(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 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.

(000s)	31 Dec 2011	31 Dec 2010
(1) Aggregate value of loans outstanding as of balance sheet date	**$449**	$460
(2) Total value of personal lines of credit facilities as of balance sheet date	**249**	249
Less: amounts drawn down and included in loan values and included in (1)	**(150)**	(129)
Net balance available	**$548**	$580
The aggregate value of loans disbursed during the year:		
Residential mortgages	**$-**	$-
Personal loans	**-**	129
Total	**$-**	$129

The majority of KMP are not directly compensated by Alterna Bank as they are employees of the parent, Alterna Savings.

(iii) Deposits from KMP

(000s)	31 Dec 2011	31 Dec 2010
Total value of demand, term and registered plans deposits from KMP	**$192**	$248
Total amount of interest paid on deposits to KMP	**3**	7

b) MANAGEMENT SERVICES AGREEMENT

Alterna Bank, by contract with its parent company, Alterna Savings, makes payments for costs incurred and services rendered relating to the management and administration of Alterna Bank. The management fee charged for 2011 was $657,000 (2010 - $2,378,000) and is included under salaries and benefits and administration expenses (note 17). Transactions are recorded in accordance with the agreement negotiated between both entities.

At the end of the year, Alterna Bank owed $150,000 to Alterna Savings (2010 – $183,000).

c) DEPOSITS

As at December 31, 2011, deposits included term deposits issued to Alterna Savings in the amount of $55,706,000 (2010 - $53,917,000). Accrued interest payable as of December 31, 2011 was $409,000 (2010 - $419,000) and is included in other liabilities. The term deposits bear a weighted average interest rate of 1.68% (2010 - 1.77%) and mature between 2012 and 2015. The interest incurred on these deposits during the year totalled $960,000 (2010 - $1,317,000).

d) SALE OF FINANCIAL ADVISORY SERVICES ("FAS") BUSINESS

On January 1, 2011, Alterna Bank's FAS business, consisting of mutual fund and securities business, was purchased by Alterna Savings for $2.9 million. The sale resulted in the transfer and derecognition of $116,000 in net assets (including a $975,000 equity option (note 21b) and $1,042,000 deferred revenue (note 11)) and the recognition of a $2,784,000 gain (note 16).

27. SELECTED DISCLOSURES

a) 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	**$ 11,629**	**$ -**	**$ 11,629**	$ 11,662	$ -	$ 11,662
Investments	**6,258**	**6,276**	**12,534**	12,308	-	12,308
Residential mortgages	**39,073**	**76,668**	**115,741**	16,857	95,740	112,597
Commercial loans	**8,175**	**12,104**	**20,279**	4,531	17,154	21,685
Personal loans	**17,017**	**1,002**	**18,019**	16,953	2,043	18,996
Allowance for impaired loans	**(211)**	**-**	**(211)**	(195)	-	(195)
Property and equipment	**-**	**424**	**424**	-	191	191
Derivative financial instruments	**-**	**37**	**37**	-	1,116	1,116
Income tax receivable	**220**	**-**	**220**	-	-	-
Deferred income tax asset	**-**	**82**	**82**	-	368	368
Other assets	**522**	**-**	**522**	646	-	646
Total assets	**$ 82,683**	**$ 96,593**	**$ 179,276**	$ 62,762	$ 116,612	$ 179,374
Liabilities						
Demand deposits	**$ 48,615**	**$ -**	**$ 48,615**	$ 50,863	$ -	$ 50,863
Term deposits	**31,552**	**60,070**	**91,622**	33,106	57,108	90,214
Registered plans	**9,292**	**6,177**	**15,469**	8,432	6,102	14,534
Income tax payable	**-**	**-**	**-**	620	-	620
Derivative financial instruments	**-**	**36**	**36**	-	139	139
Deferred income tax liability	**-**	**-**	**-**	-	25	25
Other liabilities	**1,499**	**-**	**1,499**	1,989	833	2,822
Total liabilities	**$ 90,958**	**$ 66,283**	**$ 157,241**	$ 95,010	$ 64,207	$ 159,217
Net	**$ (8,275)**	**$ 30,310**	**$ 22,035**	$ (32,248)	$ 52,405	$ 20,157

(000s)	As at January 1, 2010		
	Within 1 Year	After 1 year	Total
Assets			
Cash and cash equivalents	$ 30,121	$ -	$ 30,121
Residential mortgages	16,061	94,702	110,763
Commercial loans	4,305	18,774	23,079
Personal loans	16,873	1,109	17,982
Allowance for impaired loans	(185)	-	(185)
Property and equipment	-	261	261
Derivative financial instruments	-	103	103
Income tax receivable	132	-	132
Deferred income tax asset	-	68	68
Other assets	482	-	482
Total assets	$ 67,789	$ 115,017	$ 182,806
Liabilities			
Demand deposits	$ 62,795	$ -	$ 62,795
Term deposits	37,240	48,747	85,987
Registered plans	6,240	6,652	12,892
Derivative financial instruments	-	101	101
Other liabilities	2,425	-	2,425
Total liabilities	$ 108,700	$ 55,500	$ 164,200
Net	$ (40,911)	$ 59,517	$ 18,606

28. 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 Bank financial statements as of December 31, 2011.

29. COMPARATIVE AMOUNTS

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