Financial Statements of

ALTERNA BANK

December 31, 2017

March 8, 2018

Independent Auditor's Report

To the Shareholder of
Alterna Bank

We have audited the accompanying financial statements of Alterna Bank, which comprise the balance sheet as at December 31, 2017 and the statements of income, comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and the related notes, which comprise 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. 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, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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Comparative information

The financial statements of Alterna Bank for the year end December 31, 2016 were audited by another auditor who expressed an unmodified opinion in their report dated March 23, 2017.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

ALTERNA BANK
Balance Sheets (in thousands of dollars)
December 31, 2017

As at	Note		December-31-17		December-31-16
ASSETS					
Cash and cash equivalents	25	**$**	**18,725**	$	68,826
Investments	3		**157,910**		73,096
Loans, net of allowance for impaired loans	4, 5		**522,430**		202,634
Property and equipment	6		**35**		43
Intangible assets	7		**1,030**		493
Derivative financial instruments	22		**659**		102
Income tax receivable			**-**		133
Deferred income tax asset	19		**6**		42
Other assets	8		**18,356**		45,677
		$	**719,151**	$	391,046
LIABILITIES AND SHAREHOLDER'S EQUITY					
Liabilities:					
Deposits	9	**$**	**578,312**	$	345,294
Mortgage securitization liabilities	11		**83,609**		17,028
Borrowings	10		**4,499**		-
Derivative financial instruments	22		**310**		114
Income tax payable			**641**		-
Other liabilities	12		**2,899**		1,648
			670,270		364,084
Shareholder's equity:					
Share capital	14		**35,000**		15,000
Retained earnings			**13,160**		11,581
Accumulated other comprehensive income			**721**		381
		$	**719,151**	$	391,046

On behalf of the Board:

Maria Barrados
Director

Johanne Charbonneau, FCPA, FCGA, MBA, C. Dir
Director

(See accompanying notes to the financial statements)

ALTERNA BANK
Statements of Income (in thousands of dollars)
December 31, 2017

For the years ended	Note	December-31-17	December-31-16
Interest income	15	**8,079**	$ 5,209
Investment income	16	**4,853**	1,125
		12,932	6,334
Interest expense	15	**9,959**	3,570
Net interest income		**2,973**	2,764
Loan costs		**186**	147
		2,787	2,617
Other income	17	**4,544**	2,185
		7,331	4,802
Operating expenses	18	**5,108**	4,482
Income before income taxes		**2,223**	320
Provision for income taxes	19	**644**	81
Net income		**$ 1,579**	$ 239

(See accompanying notes to the financial statements)

ALTERNA BANK
Statements of Comprehensive Income (in thousands of dollars)
December 31, 2017

For the years ended	December-31-17	December-31-16
Net income	**$ 1,579**	$ 239
Other comprehensive income (loss)		
Other comprehensive income (loss) to be reclassified to income in subsequent periods:		
Available-for-sale securities:		
Changes arising during the year [(1)]	**588**	(22)
Add: Reclassification adjustments for gains included in the income statement [(2)]	**(180)**	-
Cash flow hedges:		
Changes arising during the year [(3)]	**(68)**	-
	340	(22)
Comprehensive income	**$ 1,919**	$ 217

[(1)] Net of income tax expense of $214 (2016 – recovery of $12).
[(2)] Net of income tax recovery of $63 (2016 – $nil).
[(2)] Net of income tax recovery of $26 (2016 – $nil).

(See accompanying notes to the financial statements)

ALTERNA BANK
Statements of Changes in Shareholder's Equity (in thousands of dollars)
December 31, 2017

For the years ended		December-31-17		December-31-16
Share capital:				
Balance, beginning and end of year	**$**	**15,000**	$	15,000
Net shares issued		**20,000**		-
Balance, end of year		**35,000**		15,000
Retained earnings, net of tax:				
Balance, beginning of year		**11,581**		11,342
Net income		**1,579**		239
Balance, end of year		**13,160**		11,581
Accumulated other comprehensive income, net of tax:				
Balance, beginning of year		**381**		403
Other comprehensive income (loss)		**340**		(22)
Balance, end of year		**721**		381
Shareholder's equity	**$**	**48,881**	$	26,962

(See accompanying notes to the financial statements)

ALTERNA BANK
Statements of Cash Flows (in thousands of dollars)
December 31, 2017

For the years ended		December-31-17		December-31-16
Operating activities:				
Net income	$	**1,579**	$	239
Add non-cash items:				
Allowance for impaired loans		**145**		104
Depreciation and amortization of				
Property and equipment		**14**		96
Intangible assets		**207**		125
Deferred charges		**2,663**		878
(Gain) loss on:				
Disposal of property and equipment		**3**		-
Sale of investments		**(707)**		-
Sale and securitization of loans		**(2,980)**		(980)
Decrease (increase) in assets:				
Fair value of investments		**1,780**		34
Fair value of loans		**1,057**		-
Interest receivable		**(1,386)**		(561)
Deferred income taxes		**(84)**		32
Loans, net of allowance for impaired loans		**(324,870)**		(51,929)
Receivable from parent company		**37,653**		(39,282)
Assets relating to derivative financial instruments		**(654)**		(39)
Increase in liabilities:				
Interest payable		**266**		188
Deposits		**233,016**		185,135
Liabilities relating to derivative financial instruments		**196**		51
Other items, net		**1,208**		(875)
Cash provided by (used in) operating activities		**(50,894)**		93,216
Investing activities:				
Proceeds from maturity and sale of investments		**62,508**		(34)
Purchase of investments		**(147,835)**		(49,628)
Acquisition of property and equipment		**(9)**		(3)
Acquisition of intangible assets		**(744)**		(618)
Cash used in investing activities		**(86,080)**		(50,283)
Financing activities:				
Proceeds from the securitization of mortgages		**85,695**		16,428
Payment of mortgage securitization liabilities		**(23,321)**		(635)
Increase in borrowings		**4,499**		-
Issuance of common shares		**20,000**		-
Cash provided by financing activities		**86,873**		15,793
Net increase (decrease) in cash during the year		**(50,101)**		58,726
Cash and cash equivalents, beginning of year		**68,826**		10,100
Cash and cash equivalents, end of year	$	**18,725**	$	68,826
Supplemental information:				
Interest paid	$	**9,693**	$	2,402
Interest received	$	**6,693**	$	5,627
Income taxes paid	$	**136**	$	220

(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. Alterna Bank is a wholly owned subsidiary of Alterna Savings. Alterna Savings is the ultimate parent.

The registered office address of Alterna Bank is 319 McRae Avenue, Ottawa, Ontario, K1Z 0B9. The nature of Alterna Bank's operations and principal activities are the provision of deposit taking facilities and loan facilities to the clients of the bank across Canada.

The financial statements for the year ended December 31, 2017 were authorized for issue in accordance with a resolution of the Board of Directors on March 8, 2018. The Board of Directors has the power to amend the financial statements after issuance only in the case of a 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").

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

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

BASIS OF PREPARATION

The 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, which 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) 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.

b) DETERMINATION OF FAIR VALUE

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

c) 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 or 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 and other financial liabilities as well as 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 financial instruments classified as 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 financial instruments.

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

(ii) Available-for-sale
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 Held for Trading. 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 impairment occurs, at which time the cumulative gain or loss is transferred to the statements of income. For financial assets classified as AFS, changes in carrying amounts relating to changes in foreign exchange rate are recognized in the statements 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, less impairment. Realized gains and losses on sale as well as interest and dividend income from these securities are included in investment income.

(iii) 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.

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

d) IMPAIRMENT OF FINANCIAL ASSETS

At each balance sheets 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 sheets 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 income 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 that 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 statements 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 statements 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 statements of income.

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

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

Loan costs - Loan costs include the 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, where circumstances are deemed appropriate, 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 sheets date whether there is objective evidence that the asset or group of assets is impaired.

In the case of 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 (loss) ("OCI") is removed from OCI and recognized in the statements 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 statements of income. Impairment losses on equity investments classified as AFS are not reversed through the statements of income; increases in their fair value after impairment are recognized in OCI.

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

e) DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

- The rights to receive cash flows from the asset have expired; or
- Alterna 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 statements of income.

(iii) Mortgage sales
Alterna Bank may from time to time sell a portion of its securitized residential and commercial mortgage loan portfolio to diversify its funding sources and enhance its liquidity position. These transactions are accounted for in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") and as such the related loans are derecognized from the balance sheets if the transaction meets the derecognition criteria through the transfer of certain risk and rewards to external parties. Gains or losses on these transactions are reported in other income on the statements of income. On certain transactions Alterna Bank retains substantially all the risks and rewards of the transferred loans. As a result, these loans remain on the balance sheet and the proceeds received are recognized as a liability in the balance sheets.

f) 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 sheets.

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

(i) Embedded derivatives
Derivatives may be embedded in other financial instruments. Derivatives embedded in other financial instruments are valued as separate derivatives when their economic characteristics and risks are not considered to be closely related to the host contract. These embedded derivatives are classified as derivative financial instruments and measured at fair value with changes therein recognized in the statements of income. The only embedded derivatives are the options embedded in Alterna Bank's indexed term deposits offered to clients (note 22(a)), with respect to which the host deposits are carried at amortized cost.

(ii) Hedge accounting
Alterna Bank uses derivative financial instruments such as swaps in its management of interest rates. Derivative financial instruments are not used for trading or speculative purposes but rather as economic hedges, some of which qualify for hedge accounting. Alterna Bank applies hedge accounting for derivative financial instruments that meet the criteria specified in IAS 39. When hedge accounting is not applied, the change in the fair value of the derivative financial instrument is recognized in income. This includes instruments used for economic hedging purposes that do not meet the requirements for hedge accounting.

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

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

g) 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 sheets 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.

h) 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 the lease

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

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

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

i) INTANGIBLE ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

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

Intangible assets with a finite life are amortized on a straight-line basis over the estimated useful lives of the assets. Alterna Bank's computer software has been identified as having a finite life and is amortized over 3 years.

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 substantively enacted by the balance sheets date.

(ii) Deferred income tax
Deferred income tax is provided on temporary differences at the balance sheets date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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.

The carrying amount of deferred income tax assets is reviewed at each balance sheets 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 sheets 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 dates.

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

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

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 that 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 statements of income on a straight-line basis over the lease term. Contingent rental payables are recognized as an expense in the period in which they are incurred.

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 statements of income for all interest-bearing financial instruments, except for those designated as FVTPL, using the effective interest rate method. The effective interest rate 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) Fair value of financial instruments
Alterna Bank measures financial instruments such as cash and cash equivalents, investments classified as AFS or designated as FVTPL and derivatives at fair value at each balance sheets date. Alterna Bank also discloses the fair value of financial instruments measured at amortized cost in note 20.

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

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

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

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

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

Level 1 — Quoted market prices in active markets for identical assets or liabilities.
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, Alterna Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There are no assets or liabilities measured at fair value that have been categorized within Level 3 of the fair value hierarchy.

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

(ii) Impairment losses on loans and advances
Alterna Bank reviews its individually significant loans and advances at each balance sheets date to assess whether an impairment loss should be recorded in the statements 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 a 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 utilization, 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 5.

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

(iv) 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.

n) 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, 2017 and have not been applied in preparing the financial statements. Alterna Bank does not intend to adopt any of these standards early. The standards below are expected to have an impact on the financial statements of Alterna Bank:

IFRS 9, *Financial Instruments* ("IFRS 9") (replacement of IAS 39)
In July 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 and all previous versions of IFRS 9. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the contractual cash flows of the asset. All financial assets are measured as at FVTPL or fair value through other comprehensive income ("FVTOCI") or amortized cost. The classification and measurement for financial liabilities remains generally unchanged except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at FVTPL.

IFRS 9 also introduces an expected loss impairment model for all financial assets not measured at FVTPL. The model has three stages: (1) on initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established; (2) if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and (3) when a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities.

The standard applies to annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. The impact of the revised standard on Alterna Bank's financial position and performance is currently being assessed.

IFRS 16, *Leases* ("IFRS 16") (replacement of IAS 17)
IFRS 16 was issued in January 2016 and sets out the principles for recognition, measurement, presentation and disclosure of leases for both parties to a contract. The new standard replaces the previous lease standard, IAS 17, *Leases*. Changes are primarily to lessee accounting. The new standard calls for all leases with a duration of more than 12 months to be reflected on-balance sheet. A financial liability will be recognized for the lease obligation. A corresponding non-financial asset will be recognized for the right-of-use asset. The obligation covers the full lease term which includes the non-concealable lease period plus any optional renewal periods where there is significant economic incentive for the lessee to exercise.

For lessees, all lease liabilities will be recorded at fair value and lease payments will be split between interest expense and principal reductions. The right-of-use asset will be amortized straight-line over the shorter of the useful life of the asset or the term of the lease. In effect, this will result in higher expense in the early years of the lease as interest expense will decrease over time.

Alterna Bank has a number of operating leases, comprised mostly of property leases, which are accounted for off-balance sheet. The lease payments are reflected in profit or loss as incurred. The new standard is effective for annual periods beginning on or after January 1, 2019. The impact of the revised standard on Alterna Bank's financial position and performance has not yet been assessed.

3. INVESTMENTS

(000s)	**31 Dec 2017**	31 Dec 2016
Designated as available-for-sale:		
Term deposits	**$101,038**	45,250
Money market instruments	**12,220**	7,293
Securities issued or guaranteed by Sovereigns *	**-**	20,553
Other investments	**60**	-
Designated as fair value through profit and loss		
Securities issued or guaranteed by Sovereigns *	**44,592**	-
	$157,910	$73,096

*Sovereigns – Direct Obligations of the Government of Canada or any obligations directly guaranteed by the Government of Canada.

All of Alterna Bank's investments were recorded at fair value. No impairments were recognized during 2017 or 2016.

4. LOANS

(000s)	31 Dec 2017	31 Dec 2016
Personal loans	**$17,794**	$17,754
Residential mortgage loans	**484,680**	148,309
Commercial loans	**20,104**	36,714
	522,578	202,777
Less: Allowance for impaired loans (note 5)	**(148)**	(143)
	$522,430	$202,634

5. ALLOWANCE FOR IMPAIRED LOANS AND IMPAIRED LOANS

a) ALLOWANCE FOR IMPAIRED LOANS

(000s)				**31 Dec 2017**
	Personal Loans	**Residential Mortgage Loans**	**Commercial Loans**	**Total**
Balance, beginning of year	**$96**	**$47**	**$-**	**$143**
Less: Loans written off	**(130)**	**(27)**	**-**	**(157)**
Add: Recoveries on loans previously written off	**16**	**-**	**-**	**16**
Add: Allowance charged to operations	**86**	**60**	**-**	**146**
Balance, end of year	**$68**	**$80**	**$-**	**$148**
Individual allowance				**$80**
Collective allowance				**68**
				$148

(000s)				31 Dec 2016
	Personal Loans	Residential Mortgage Loans	Commercial Loans	Total
Balance, beginning of year	$143	$6	$-	$149
Less: Loans written off	(139)	-	-	(139)
Add: Recoveries on loans previously written off	29	-	-	29
Add: Allowance charged to operations	63	41	-	104
Balance, end of year	$96	$47	$-	$143
Individual allowance				$61
Collective allowance				82
				$143

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 2017**	31 Dec 2016
Personal loans	**$15**	$21
Residential mortgage loans	**870**	639
Commercial loans	-	-
	$885	$660

An individual allowance, which takes into consideration the recovery on collateral, has been recorded on these impaired loans of $80,000 (2016 - $61,000).

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 2017**
	1-29 days	**30-89 days**	**90 days and greater**	**Total**
Personal loans	**$711**	**$126**	**$-**	**$837**
Residential mortgage loans	**2,602**	**645**	**380**	**3,627**
Commercial loans	-	-	-	-
	$3,313	**$771**	**$380**	**$4,464**

(000s)				31 Dec 2016
	1-29 days	30-89 days	90 days and greater	Total
Personal loans	$817	$253	$-	$1,070
Residential mortgage loans	3,702	775	239	4,716
Commercial loans	-	-	-	-
	$4,519	$1,028	$239	$5,786

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 2017	31 Dec 2016
Loans neither past due nor impaired as a percentage of total loans	**99%**	97%
Collateral repossession: carrying value at balance sheets date of collateral properties possessed during the period (000s)	**$888**	$496

6. PROPERTY AND EQUIPMENT

(000s)	**Furniture and equipment**	**Leasehold Improvements**	**Total**
Cost:			
Balance as at January 1, 2017	**$160**	**$614**	**$774**
Additions	**9**	**-**	**9**
Disposals	**(67)**	**(249)**	**(316)**
Balance as at December 31, 2017	**102**	**365**	**467**
Depreciation and impairment:			
Balance as at January 1, 2017	**143**	**588**	**731**
Depreciation	**5**	**9**	**14**
Impairment losses	**3**	**-**	**3**
Disposals	**(67)**	**(249)**	**(316)**
Balance as at December 31, 2017	**84**	**348**	**432**
Net book value:			
Balance as at January 1, 2017	**17**	**26**	**43**
Balance as at December 31, 2017	**$18**	**$17**	**$35**

(000s)	Furniture and equipment	Leasehold Improvements	Total
Cost:			
Balance as at January 1, 2016	$171	$658	$829
Additions	-	-	-
Disposals	(11)	(44)	(55)
Balance as at December 31, 2016	160	614	774
Depreciation and impairment:			
Balance as at January 1, 2015	146	547	693
Depreciation	8	85	93
Impairment losses	-	-	-
Disposals	(11)	(44)	(55)
Balance as at December 31, 2016	143	588	731
Net book value:			
Balance as at January 1, 2016	25	111	136
Balance as at December 31, 2016	$17	$26	$43

Total depreciation charged to income in 2017 was $14,000 (2016 – $96,000) and is included in administration and occupancy expenses under operating expenses on the statements of income.

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

The gross carrying amount of fully depreciated property and equipment that are still in use is $364,000 as at December 31, 2017 (December 31, 2016 – $455,000).

7. INTANGIBLE ASSETS

(000s)	Computer Software 2017	Computer Software 2016
Cost:		
Balance as at January 1,	**$618**	$-
Additions	**744**	618
Disposals	**-**	-
Balance as at December 31,	**1,362**	618
Depreciation and impairment:		
Balance as at January 1,	**125**	-
Depreciation	**207**	125
Impairment losses	**-**	-
Disposals	**-**	-
Balance as at December 31,	**332**	125
Net book value:		
Balance as at January 1,	**493**	-
Balance as at December 31,	**$1,030**	$493

Total amortization charged to income in 2017 was $207,000 (2016 – $125,000) and is included in administration expenses under operating expenses on the statements of income. All computer software assets have been acquired not developed.

8. OTHER ASSETS

(000s)	31 Dec 2017	31 Dec 2016
Securitization receivables and deferred charges	**$11,647**	$4,464
Accrued interest receivable	**2,169**	783
Prepaid expenses and other deferred charges	**1,825**	161
Receivable from parent company	**1,629**	39,282
Other	**1,086**	987
	$18,356	$45,677

9. DEPOSITS

(000s)	31 Dec 2017	31 Dec 2016
Demand deposits	**$373,961**	$212,209
Term deposits	**122,344**	101,365
Registered plans	**82,007**	31,720
	$578,312	$345,294

As at December 31, 2017, Alterna Bank held US dollar deposits from clients of US$355,000 (December 31, 2016 – US$572,000) with a carrying amount of $446,000 (December 31, 2016 – $768,000).

10. BORROWINGS

(000s)	31 Dec 2017	31 Dec 2016
Borrowings	**$2,879**	$-
Repurchase agreements	**1,620**	-
	$4,499	$-

Alterna Bank has access to a $30,000,000 credit facility with Central 1 Credit Union (“Central 1”). 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, 2016 – $nil).

Alterna Bank also has access to a $25,000,000 revolving credit facility with the Canadian Imperial Bank of Commerce through its parent company Alterna Savings of which the balance outstanding was $2,879,000 as at December 31, 2017. The facility is secured by insured mortgage collateral.

Borrowings also includes $1,620,000 in short-term borrowings in the form of investment repurchase agreements entered into with Central 1.

11. MORTGAGE SECURITIZATION LIABILITIES

(000s)	31 Dec 2017	31 Dec 2016
Mortgage securitization liabilities	**$83,609**	$17,028

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

Alterna Bank packages single-family and multi-unit insured mortgages into mortgage-backed securities (“MBS”) and in turn sells the MBS to third parties or Canada Housing Trust (“CHT”). CHT is financed through the issuance of CMBs, which are sold to third party investors under the Canada Mortgage Bond Program. The creation of MBS does not lead to the derecognition of the underlying mortgages as Alterna Bank has retained substantially all the risks and rewards of ownership.

Alterna Bank has entered into certain transactions which allow the transfer of the contractual right to receive the residual cash flows from the mortgages and transfer substantially all of the risks and rewards of ownership, including credit, interest rate, prepayment and other price risks. In these cases, the mortgages are derecognized from the balance sheet as described in note 2(e)(iii). If the criteria are not met, the mortgages remain on the books and a secured borrowing is recorded with respect to any consideration received.

(000s)	31 Dec 2017	31 Dec 2016
Mortgages securitized:		
On balance sheet (and included in loans)	**$99,724**	40,561
Off balance sheet	**325,229**	103,396

12. OTHER LIABILITIES

(000s)	31 Dec 2017	31 Dec 2016
Trade payables and accrued expenses	**$1,564**	$580
Accrued interest payable	**1,335**	1,068
	$2,899	$1,648

13. LEASES

OPERATING LEASE OBLIGATIONS

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

(000s)	31 Dec 2017	31 Dec 2016
Future minimum lease payments		
Within one year	**$31**	$43
From one to five years	**29**	61
Later than five years	**-**	-
Total future minimum lease payments	**$60**	$104

During 2017, $82,000 was recognized as an expense, under occupancy expenses in the statements of income in respect of operating leases (2016 – $109,000).

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

14. 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, 2017, there were 3,500,001 (2016 – 1,500,001) common shares issued and outstanding: 3,500,000 (2016 – 1,500,000) with a stated value of $10 per share and one common share with a stated value of $1 per share. During 2017, Alterna Bank's parent company subscribed to an additional 2,000,000 common shares at $10 per share. There are no issued shares that have not been fully paid.

15. INTEREST INCOME AND INTEREST EXPENSE

(000s)	31 Dec 2017	31 Dec 2016
Interest income:		
Personal loans	**$746**	$695
Residential mortgage loans	**5,838**	3,946
Commercial loans	**1,447**	568
Swaps	**48**	-
	$8,079	$5,209
Interest expense:		
Demand deposits	**$5,398**	$1,233
Term deposits	**1,369**	1,794
Registered plans	**1,250**	363
Borrowings	**6**	-
Mortgage securitization cost of funds	**1,936**	180
	$9,959	$3,570

No interest income was recorded on impaired loans for the years ended December 31, 2017 and 2016, as they were 100% provisioned.

16. INVESTMENT INCOME

(000s)	**31 Dec 2017**	31 Dec 2016
Income on financial assets fair value through profit and loss	**$681**	$-
Income on financial assets available-for-sale	**4,172**	1,125
	$4,853	$1,125

17. OTHER INCOME

(000s)	**31 Dec 2017**	31 Dec 2016
Foreign exchange	**$1,177**	138
Service charges	**242**	198
Commissions	**200**	188
Net gains (loss) on derivative financial instruments	**(178)**	647
Net securitization gains	**2,980**	980
Other	**123**	34
	$4,544	$2,185

Net securitization gains includes $4,955,000 (2016 - $1,580,000) of gross gains less associated fees net of CMB-related of $1,975,000 (2016 - $600,000).

18. OPERATING EXPENSES

(000s)	**31 Dec 2017**	31 Dec 2016
Administration	**$2,718**	$1,724
Salaries and benefits	**1,507**	1,699
Marketing and community relations	**754**	791
Occupancy	**129**	268
	$5,108	$4,482

19. INCOME TAXES

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

(000s)	**31 Dec 2017**	31 Dec 2016
Allowance for impaired loans	**$20**	$23
Derivatives	**(21)**	15
Property and equipment	**(11)**	4
Other	**18**	-
	$6	$42
<u>On Balance sheets:</u>		
Deferred income tax asset	**$399**	$88
Deferred income tax liability	**(393)**	(46)
Net deferred income tax asset	**$6**	$42

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

(000s)	**31 Dec 2017**		31 Dec 2016	
	Amount	**Percent**	Amount	Percent
Expected tax provision at combined federal and provincial rates	**$590**	**27%**	$86	27%
Rate differential	**(1)**	-%	(5)	(2%)
Other - net	**55**	**2%**	-	-%
	$644	**29%**	$81	25%

The components of income tax expense for the years ended December 31, 2017 and 2016 are as follows:

(000s)	**31 Dec 2017**	31 Dec 2016
	Amount	Amount
Current tax		
Current income tax	**$749**	$86
Deferred income tax		
Relating to the origination and reversal of timing differences	**(105)**	(5)
Income tax expense reported in statements of income	**$644**	$81

The tax related to items charged to OCI during the year is as follows:

(000s)	**31 Dec 2017**	31 Dec 2016
Change in unrealized gains and losses on available-for-sale financial assets	**$151**	$12
Change in gains and losses on derivatives designated as cash flow hedges	**(26)**	-
	$125	$12

There are no tax related contingent liabilities and contingent assets as at December 31, 2017 in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets.*

20. 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 2017**		31 Dec 2016	
	Carrying value	**Fair value**	Carrying value	Fair value
Available-for-sale:				
Cash and cash equivalents	**$18,725**	**$18,725**	$68,826	$68,826
Investments	**157,910**	**157,910**	73,096	73,096
Fair value through profit and loss:				
Derivative financial instruments				
- purchased options	**47**	**47**	75	75
- bond forwards	**612**	**612**	27	27
Loans and receivables:				
Loans				
- personal loans	**17,794**	**17,910**	17,754	17,794
- residential mortgage loans	**484,680**	**491,893**	148,309	152,518
- commercial loans	**20,104**	**20,377**	36,714	36,827
TOTAL ASSETS	**$699,872**	**$707,474**	$344,801	$349,163
Other liabilities:				
Deposits				
- demand deposits	**$373,961**	**$373,961**	$212,209	$222,581
- term deposits	**122,344**	**120,486**	101,365	103,359
- registered plans	**82,007**	**81,919**	31,720	30,575
Mortgage securitization liabilities	**83,609**	**84,702**	17,028	17,028
Borrowings	**4,499**	**4,499**	-	-
Fair value through profit and loss:				
Derivative financial instruments				
- interest rate swaps	**56**	**56**	-	-
- embedded options	**47**	**47**	75	75
- bond forwards	**207**	**207**	39	39
TOTAL LIABILITIES	**$666,730**	**$665,877**	$362,436	$373,657

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

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

(i) Fair values of AFS investments are derived from discounted cash flow valuation models. Discount rates are based on observable market inputs, other than quoted prices, which include relevant interest rates pertaining to the value of the investments.

(ii) Alterna Bank enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques include purchased and embedded options. The most frequently applied valuation technique includes present value calculations. The models incorporate various inputs including the credit quality of counterparties and interest rate curves. As at December 31, 2017, the marked-to-market value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on other financial instruments recognized at fair value. Alterna Bank also takes into account the counterparties' non-performance risks (for the purchased options) or its own non-performance risk (for the embedded derivative liabilities). As at December 31, 2017, Alterna Bank assessed these risks to be insignificant.

(iii) 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.

FAIR VALUE HIERARCHY

The following tables show the hierarchical classification of financial assets and liabilities measured or disclosed at fair value as at December 31, 2017 and 2016:

December 31, 2017 (000s)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value:				
Financial investments AFS	**$-**	**$157,910**	**$-**	**$157,910**
Derivative financial instruments				
- purchased options	**-**	**47**	**-**	**47**
- bond forwards	**-**	**612**	**-**	**612**
Assets for which fair values are disclosed:				
Loans				
- personal loans	**$-**	**-**	**17,910**	**17,910**
- residential mortgage loans	**-**	**-**	**491,893**	**491,893**
- commercial loans	**-**	**-**	**20,377**	**20,377**
Liabilities measured at fair value:				
Derivative financial instruments				
- interest rate swap	**$-**	**$56**	**-**	**$56**
- embedded options	**-**	**47**	**-**	**47**
- bond forwards	**-**	**207**	**-**	**207**
Liabilities for which fair values are disclosed:				
Deposits				
- demand deposits	**-**	**$373,961**	**-**	**$373,961**
- term deposits	**-**	**120,486**	**-**	**120,486**
- registered plans	**-**	**81,919**	**-**	**81,919**
Mortgage securitization liabilities	**-**	**84,702**	**-**	**84,702**
Borrowings	**-**	**4,499**	**-**	**4,499**

December 31, 2016 (000s)	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Financial investments AFS	$-	$73,096	$-	$73,096
Derivative financial instruments				
- purchased options	-	75	-	75
- bond forwards	-	27	-	27
Assets for which fair values are disclosed:				
Loans				
- personal loans	-	-	17,794	17,794
- residential mortgage loans	-	-	152,518	152,518
- commercial loans	-	-	36,827	36,827
Liabilities measured at fair value:				
Derivative financial instruments				
- embedded options	$-	$75	$-	$75
- bond forwards	-	39	-	39
Liabilities for which fair values are disclosed:				
Deposits				
- demand deposits	-	222,581	-	222,581
- term deposits	-	103,359	-	103,359
- registered plans	-	30,575	-	30,575
Mortgage securitization liabilities	-	17,028	-	17,028

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2017 and 2016.

21. 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 sheets.

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

For loans, Alterna 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 clients 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.

Credit risk is limited for mortgages secured by residential properties as 54% (2016 – 62%) of these mortgages are insured by mortgage insurance companies. Alterna Bank also monitors the concentration risk from commercial loans by setting maximum exposure limits for total loan balances for each industry. The carrying amount of financial assets recorded in the financial statements net of impairment losses, represents Alterna Bank's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Alterna Bank mitigates counterparty credit risk of investments and derivatives by aggregating counterparty exposure for each issuer and adhering to the quality guidelines as noted in its Investment/Derivative policy. Investments other than those issued by the Government of Canada and its Crown Corporations are diversified by limiting investments in any one issuer to a maximum of 25% of total regulatory capital.

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

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

b) MARKET RISK

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

(i) Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Alterna 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.

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

Alterna Bank's maximum tolerable exposure to short-term interest rate risk over 12 months is restricted to 5% of forecasted net interest income with a 95% confidence level. Its maximum tolerable exposure to interest rate risk on the entire balance sheets is restricted to a 4.5% decline in the market value of equity to mitigate long-term interest rate risk. As at December 31, 2017, the results for these measures were 0.98% (2016 – 1.41%) and 2.48% (2016 – 0.24%), respectively. Alterna Bank was in compliance with the policy as at December 31, 2017.

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 from the date of purchase. Certain contractual repricing dates have been adjusted according to management's estimates for prepayments and early redemptions. The weighted average interest rates shown represent historical rates for fixed-rate instruments carried at amortized cost and current market rates for variable-rate instruments or instruments carried at fair value. Derivatives are presented in the variable rate category.

(000s)							**31-Dec-17**	31-Dec-16
	Maturity							
	Non-interest rate sensitive	**Variable rate demand**	**Under 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**	Total
Cash and cash equivalents	**$ 13,436**	**$ 5,289**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 18,725**	$68,826
Interest Rates	**-**	**0.80%**	**-**	**-**	**-**	**-**	**0.23%**	0.63%
Investments	**$ -**	**$ -**	**$ 13,022**	**$ 21,102**	**$ 123,786**	**$ -**	**$ 157,910**	$73,096
Interest Rates	**-**	**-**	**1.08%**	**1.46%**	**2.42%**	**-**	**2.18%**	0.90%
Personal loans	**$ -**	**$ 16,932**	**$ 80**	**$ 117**	**$ 597**	**$ -**	**$ 17,726**	$17,658
Interest Rates	**-**	**4.30%**	**10.62%**	**10.51%**	**11.20%**	**-**	**4.60%**	3.99%
Residential mortgage loans	**$ -**	**$ 2,779**	**$ 60,055**	**$ 83,613**	**$ 337,210**	**$ 942**	**$ 484,599**	$148,262
Interest Rates	**-**	**4.52%**	**2.89%**	**2.89%**	**2.87%**	**3.22%**	**2.88%**	2.80%
Commercial loans	**-**	**$ 5,840**	**$ 2,493**	**$ 4,368**	**$ 5,668**	**$ 1,735**	**$ 20,104**	$36,714
Interest Rates	**-**	**7.16%**	**3.04%**	**4.14%**	**2.97%**	**3.10%**	**4.46%**	2.96%
Other	**$ 19,428**	**$ 612**	**$ 11**	**$ 7**	**$ 29**	**$ -**	**$ 20,087**	$46,490
TOTAL ASSETS	**$ 32,864**	**$ 31,452**	**$ 75,661**	**$ 109,207**	**$ 467,290**	**$ 2,677**	**$ 719,151**	$ 391,046
Deposits	**$ -**	**$ 439,740**	**$ 13,969**	**$ 44,616**	**$ 79,984**	**$ -**	**$ 578,309**	$345,294
Interest Rates	**-**	**1.69%**	**1.59%**	**1.72%**	**1.60%**	**-**	**1.68%**	1.63%
Mortgage securitization liabilities	**$ -**	**$ -**	**$ -**	**$ -**	**$ 81,579**	**$ 2,030**	**$ 83,609**	$17,028
Interest Rates	**-**	**-**	**-**	**-**	**2.13%**	**2.57%**	**2.14%**	1.37%
Borrowings	**$ -**	**$ -**	**$ 4,499**	**$ -**	**$ -**	**$ -**	**$ 4,499**	$ -
Interest Rates	**-**	**-**	**2.52%**	**-**	**-**	**-**	**2.52%**	-%
Other	**$ 3,543**	**$ 263**	**$ 11**	**$ 7**	**$ 29**	**$ -**	**$ 3,853**	$1,762
Shareholder's equity	**$ 48,881**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 48,881**	$26,962
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**$ 52,424**	**$ 440,003**	**$ 18,479**	**$ 44,623**	**$ 161,592**	**$ 2,030**	**$ 719,151**	$ 391,046
MATCHING GAP	**$ (19,560)**	**$ (408,551)**	**$ 57,182**	**$ 64,584**	**$ 305,698**	**$ 647**	**$ -**	$ -

(ii) Sensitivity Analysis - The key metrics that Alterna Bank uses to monitor interest rate risk are earnings at Risk ("EaR") and Economic Value of Equity at Risk ("EVEaR"). EaR is defined as the change in interest income from a predetermined shock to interest rates. This exposure is measured over a 12 month period. EVEaR is defined as the change in the present value of the asset portfolio resulting from a predetermined shock versus the change in the present value of the liability portfolio resulting from the same predetermined interest rate shock. The estimated impact of a 100 basis point shock on these metrics is presented below.

(000s)	**31 Dec 2017**	31 Dec 2016
EaR	**($86)**	($92)
EVEaR	**(2.48%)**	(0.24%)

(iii) Currency risk

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

Alterna Bank mitigates currency risk by holding cash in US dollars. 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 currency denominated financial assets against similar foreign currency denominated financial liabilities on a daily basis. As at December 31, 2017, the percentage of foreign currency denominated financial assets is within 90%–110% of foreign currency denominated financial liabilities.

For a 10% instantaneous exchange rate increase (decrease), Alterna 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 minimum quarterly basis.

In May 2014, the Office of the Superintendent of Financial Institutions ("OSFI") published the final Liquidity Adequacy Requirements ("LAR") guideline. The LAR guideline is driven by the Basel Committee on Banking Supervision's global liquidity guidelines which include the Liquidity Capital Ratio ("LCR"), Net Stable Funding Ratio ("NSFR") and other intraday liquidity monitoring tools. It is further supplemented by a tool known as the Net Cumulative Cash Flow ("NCCF") metric. Management uses the LAR and associated metrics to assess liquidity adequacy. The 100% minimum LCR requirement was effective January 1, 2015. In addition, NSFR and intraday liquidity monitoring tools reporting will be in effect on January 1, 2018. Consistent with the guidelines above, Alterna Bank prepares the LCR and NCCF reports monthly and files the results with OSFI. As at December 31, 2017 and 2016, the LCR minimum was met and the NCCF did not show any liquidity deficiencies over the next 12-month period.

For the contractual maturities of assets and liabilities, please refer to the table under note 21(b)(i).

The following table provides the maturity profile of financial liabilities based on the contractual repayment obligations, and excludes contractual cash flows related to derivative liabilities which are disclosed in note 22.

(000s)					**31 Dec 2017**	31 Dec 2016
	Less than 1 year	**1 to 5 years**	**Over 5 years**	**No specified maturity**	**Total**	Total
Deposits	**$58,585**	**$79,984**	**$-**	**$439,740**	**$578,309**	$345,294
Mortgage securitization liabilities	**-**	**-**	**83,609**	**-**	**83,609**	17,028
Borrowings	**4,499**	**-**	**-**	**-**	**4,499**	-
	$63,084	**$79,984**	**$83,609**	**$438,740**	**$666,417**	$362,322

22. DERIVATIVE FINANCIAL INSTRUMENTS

The tables below provide a summary of Alterna Bank's derivative portfolio, their notional values and fair values as at December 31, 2017 and 2016:

(000s)					**31 Dec 2017**
	Maturities of derivatives (Notional amounts)			Fair Value	
	Within 1 Year	1 to 5 Years	Total	Derivative Instrument assets	Derivative Instrument liabilities
Interest rate contracts					
Swaps	**$-**	**$20,000**	**$20,000**	**$-**	**$56**
Bond forwards	**215,300**	**-**	**215,300**	**612**	**206**
Other derivatives					
Index-linked call options	**175**	**519**	**694**	**47**	**48**
	$215,475	**$20,519**	**$235,994**	**$659**	**$310**

(000s)					31 Dec 2016
	Maturities of derivatives (Notional amounts)			Fair Value	
	Within 1 Year	1 to 5 Years	Total	Derivative Instrument assets	Derivative Instrument liabilities
Interest rate contracts					
Bond forwards	$22,100	$-	$22,100	$27	$39
Other derivatives					
Index-linked call options	335	677	1,012	75	75
	$22,435	$677	$23,112	$102	$114

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

a) INTEREST RATE CONTRACTS

Bond forwards
As part of its interest rate risk management process, Alterna Bank utilizes bond forwards to maintain its interest rate exposure on forecasted debt issuance associated with securitization activity. Realized gains (losses) on these derivatives are recorded in other income.

b) OTHER DERIVATIVES

Index-linked call options
Alterna Bank has issued $694,000 of indexed term deposits to its clients as at December 31, 2017 (2016 – $1,012,000). These term deposits have maturities of three or five years at issuance and pay interest to the depositors, at the end of the term, based on the performance of the S&P/TSX60 Index. Alterna Bank uses purchased call options on the above indices with equivalent maturities to offset the exposure associated with these products. Alterna Bank pays a premium amount based on the notional amount at the inception of the equity index-linked option contract. At the end of the term, Alterna Bank receives from the counterparties payments equal to the amount that will be paid to the depositors based on the performance of the respective indices.

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, 2017			
(000s)	**Replacement Cost**	**Credit Equivalent Amount**	**Risk-Weighted Amount**
Bond forwards	**$612**	**$612**	**$122**
Purchased options	**47**	**100**	**20**
Swaps	**-**	**100**	**20**
	$659	**$812**	**$162**

December 31, 2016			
(000s)	Replacement Cost	Credit Equivalent Amount	Risk-Weighted Amount
Bond forwards	$27	$-	$5
Purchased options	$75	$75	$30
	$102	$75	$35

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.

23. 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 certain elements of AOCI.

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 at levels higher than these OSFI- required minimums:

Leverage ratio	3%
Common equity tier 1("CET1") ratio	7%
Tier 1 capital ratio	8.5%
Total capital ratio	10.5%

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 includes CET1 capital less deductions required under Basel III. CET1 capital primarily includes common shareholder's equity and preferred shares. 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 III regulatory capital and risk-weighted assets:

	31 Dec 2017	31 Dec 2016
CET1 capital (000s)	**$48,875**	$26,920
Tier 1 capital (000s)	**$48,875**	$26,920
Tier 2 capital (000s)	**$-**	$-
Total capital (000s)	**$48,875**	$26,920
Total risk-weighted assets (000s)	**$156,849**	$117,462
CET1 capital ratio	**31.2%**	22.9%
Tier 1 capital ratio	**31.2%**	22.9%
Total capital ratio	**31.2%**	22.9%

As at December 31, 2017, Alterna Bank's leverage ratio was 6.77% (2016 – 6.84%). Alterna Bank was in compliance with policy, the Act and regulations regarding the leverage ratio and total capital as a percent of risk-weighted assets. In addition, Alterna Bank complied with these requirements throughout the year.

24. COMMITMENTS AND CONTINGENCIES

a) CREDIT INSTRUMENTS

As at December 31, 2017, the credit instruments approved but not yet disbursed were as follows:

(000s)	**Total**
Residential mortgage loans	$1,582
Lines of credit unfunded	$23,314

b) CONTINGENCIES

In the normal course of operations, Alterna Bank becomes involved in various claims and legal proceedings. While the final outcome with respect to claims and legal proceedings pending as at December 31, 2017 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.

25. NOTES TO STATEMENTS OF CASH FLOWS

a) COMPONENTS OF CASH AND CASH EQUIVALENTS

(000s)	**31 Dec 2017**	31 Dec 2016
Cash on hand	**$125**	$1,957
Deposits with other financial institutions	**18,600**	66,869
	$18,725	$68,826

b) CASH FLOWS PRESENTED ON A NET BASIS

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

Restrictions on the potential distribution of cash dividends or loan repayments by Alterna Bank to Alterna Savings are determined by regulatory requirements. The potential maximum amount of dividend that can be distributed amounted to $27,219,000 and $15,113,000 as at December 31, 2017 and 2016 respectively.

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 executive management to constitute KMP for purposes of IAS 24, *Related Party Disclosures*. Executive management includes the President & CEO as well as employees in positions titled Vice-President, Senior Vice-President, or Region Head.

(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 2017	31 Dec 2016
Short-term employee benefits	**$43**	$41
Post-employment benefits	-	-
Other long-term employee benefits	-	-
Termination benefits	-	-
Total KMP compensation	**$43**	$41

During 2017 and during 2016, KMP were not directly compensated by Alterna Bank as they are employees of the parent, Alterna Savings.

(ii) Loans to KMP

(000s)	31 Dec 2017	31 Dec 2016
(1) Aggregate value of loans outstanding as at balance sheets date	**$846**	$881
(2) Total value of personal lines of credit facilities as at balance sheets date	-	-
Less: Amounts drawn down and included in loan values and included in (1)	**(846)**	(881)
Net balance available	**$-**	$-
Aggregate value of loans disbursed during the year:		
Residential mortgages	**$-**	$908
Personal loans	-	-
Total	**$-**	$908

(iii) Deposits from KMP

(000s)	31 Dec 2017	31 Dec 2016
Total value of demand, term and registered plans deposits from KMP	**$819**	$404
Total amount of interest paid on deposits to KMP	**13**	3

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 2017 was $1,743,000 (2016 – $1,715,000) and is included under salaries and benefits and administration expenses (note 18). Transactions are recorded in accordance with the agreement negotiated between both entities.

At the end of the year, Alterna Savings owed $1,629,000 to Alterna Bank (2016 – Alterna Savings owed Alterna Bank $39,282,000).

c) INVESTMENTS

As at December 31, 2017, investments included term deposits and securities issued or guaranteed by Sovereigns issued by Alterna Savings in the amount of $145,630,000 (2016 – $65,803,000). Accrued interest receivable as at December 31, 2017 was $947,000 (2016 – $336,000) and is included in other assets. The investments bear a weighted average interest rate of 2.22% (2016 – 1.98%) and mature between 2019 and 2021. The interest incurred on these deposits during the year totalled $4,462,000 (2016 – $910,000).

d) DEPOSITS

As at December 31, 2017, deposits included demand and term deposits issued to Alterna Savings in the amount of $56,527,000 (2016 – $34,954,000). Accrued interest payable as at December 31, 2017 was $20,000 (2016 – $261,000) and is included in other liabilities. The term deposits bear a weighted average interest rate of 1.50% (2016 – 1.89%) and mature in 2021. The interest incurred on these deposits during the year totalled $275,000 (2016 – $648,000).

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, 2017 and 2016.

(000s)		**As at December 31, 2017**				**As at December 31, 2016**
	Within 1 year	**After 1 year**	**Total**	Within 1 year	After 1 year	Total
Assets						
Cash and cash equivalents	**$18,725**	**$-**	**$18,725**	$68,826	$-	$68,826
Investments	**60**	**157,850**	**157,910**	44,592	28,504	73,096
Personal loans	**17,197**	**597**	**17,794**	16,969	785	17,754
Residential mortgages	**147,634**	**337,046**	**484,680**	45,433	102,876	148,309
Commercial loans	**14,436**	**5,668**	**20,104**	13,730	22,984	36,714
Allowance for impaired loans	**(148)**	**-**	**(148)**	(143)	-	(143)
Property and equipment	**-**	**35**	**35**	-	43	43
Intangible assets	**-**	**1,030**	**1,030**	-	493	493
Derivative financial instruments	**630**	**29**	**659**	-	102	102
Income tax receivable	**-**	**-**	**-**	133	-	133
Deferred income tax asset	**-**	**6**	**6**	-	42	42
Other assets	**18,356**	**-**	**18,356**	45,677	-	45,677
Total assets	**$216,890**	**$502,261**	**$719,151**	$235,217	$155,829	$391,046
Liabilities						
Demand deposits	**$373,961**	**$-**	**$373,961**	$212,209	$-	$212,209
Term deposits	**49,530**	**72,814**	**122,344**	44,613	56,752	101,365
Registered plans	**73,801**	**8,206**	**82,007**	21,662	10,058	31,720
Mortgage securitization liabilities	**-**	**83,609**	**83,609**	-	17,028	17,028
Borrowings	**4,499**	**-**	**4,499**			
Derivative financial instruments	**-**	**310**	**310**	-	114	114
Income tax payable	**641**	**-**	**641**	-	-	-
Other liabilities	**2,899**	**-**	**2,899**	1,648	-	1,648
Total liabilities	**$505,331**	**$164,939**	**$670,270**	$280,132	$83,952	$364,084
Net	**($288,441)**	**$337,322**	**$48,881**	($44,915)	$71,877	$26,962

28. EVENTS AFTER THE BALANCE SHEETS DATE

There have been no events subsequent to the balance sheets date that would have a material effect on Alterna Bank's financial statements as at December 31, 2017.

29. COMPARATIVE AMOUNTS

Certain 2016 comparative amounts have been reclassified to conform to the financial statement presentation adopted in 2017. In 2017, net securitization gains have been included in other income. In 2016, they were included in net interest income (see note 17). The statement of income, statement of cash flows and related notes to the financial statements for 2016 have been updated accordingly.