Financial Statements of

ALTERNA BANK

December 31, 2016

INDEPENDENT AUDITORS' REPORT

To the Shareholder of CS Alterna Bank:

We have audited the accompanying financial statements of CS Alterna Bank (“Alterna Bank”), which comprise the balance sheets as at December 31, 2016 and 2015, and the statements of income, comprehensive income, changes in shareholder’s equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 auditors’ 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 auditors consider 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 in our audits 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, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Canada
March 23, 2017

ALTERNA BANK
Balance Sheets (in thousands of dollars)
December 31, 2016

As at	Note		December-31-16		December-31-15
ASSETS					
Cash and cash equivalents	25	**$**	**68,826**	$	10,100
Investments	3		**73,096**		23,502
Loans, net of allowance for impaired loans	4, 5		**202,634**		153,821
Property and equipment	6		**43**		136
Intangible assets	7		**493**		-
Derivative financial instruments	22		**102**		63
Income tax receivable			**133**		198
Deferred income tax asset	19		**42**		62
Other assets	8		**45,677**		417
		$	**391,046**	$	188,299
LIABILITIES AND SHAREHOLDER'S EQUITY					
Liabilities:					
Deposits	9	**$**	**345,294**	$	160,159
Mortgage securitization liabilities	11		**17,028**		-
Derivative financial instruments	22		**114**		63
Other liabilities	12		**1,648**		1,332
			364,084		161,554
Shareholder's equity:					
Share capital	14		**15,000**		15,000
Retained earnings			**11,581**		11,342
Accumulated other comprehensive income			**381**		403
			26,962		26,745
		$	**391,046**	$	188,299

On behalf of the Board:

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

(See accompanying notes to the financial statements)

ALTERNA BANK
Statements of Income (in thousands of dollars)
December 31, 2016

For the years ended	Note		December-31-16		December-31-15
Interest income	15	$	6,789	$	5,093
Investment income	16		1,125		744
			7,914		5,837
Interest expense	15		4,170		2,490
Net interest income			3,744		3,347
Loan costs			147		217
			3,597		3,130
Other income	17		1,205		409
			4,802		3,539
Operating expenses	18		4,482		2,598
Income before income taxes			320		941
Provision for income taxes	19		81		253
Net income		$	239	$	688

(See accompanying notes to the financial statements)

ALTERNA BANK
Statements of Comprehensive Income (in thousands of dollars)
December 31, 2016

For the years ended		**December-31-16**		**December-31-15**
Net income	**$**	**239**	$	688
Other comprehensive income (loss)				
Other comprehensive income (loss) to be reclassified to income in subsequent periods:				
Available-for-sale securities:				
Net unrealized gain (loss) on available-for-sale securities (1)		**(22)**		58
		(22)		58
Comprehensive income	**$**	**217**	$	746

(1) Net of income tax recovery of $12 (2015 – expense of $21).

(See accompanying notes to the financial statements)

ALTERNA BANK
Statements of Changes in Shareholder's Equity (in thousands of dollars)
December 31, 2016

For the years ended	December-31-16	December-31-15
Share capital:		
Balance, beginning and end of year	**$ 15,000**	$ 15,000
Retained earnings, net of tax:		
Balance, beginning of year	**11,342**	10,654
Net income	**239**	688
Balance, end of year	**11,581**	11,342
Accumulated other comprehensive income, net of tax:		
Balance, beginning of year	**403**	345
Other comprehensive income (loss)	**(22)**	58
Balance, end of year	**381**	403
Shareholder's equity	**$ 26,962**	$ 26,745

(See accompanying notes to the financial statements)

ALTERNA BANK
Statements of Cash Flows (in thousands of dollars)
December 31, 2016

For the years ended		December-31-16		December-31-15
Operating activities:				
Net income	$	239	$	688
Add (deduct) non-cash items:				
Allowance for impaired loans		104		150
Depreciation and amortization of				
Property and equipment		96		66
Intangible assets		125		-
Deferred charges		243		156
Gain on sale and securitization of loans		(980)		-
Decrease (increase) in assets:				
Fair value of investments		34		(78)
Interest receivable		(561)		(52)
Deferred income taxes		32		(1)
Loans, net of allowance for impaired loans		(51,929)		(1,464)
Assets relating to derivative financial instruments		(39)		65
Increase (decrease) in liabilities:				
Interest payable		188		(73)
Deposits		185,135		10,229
Liabilities relating to derivative financial instruments		51		(64)
Other items, net		(40,157)		(380)
Cash provided by operating activities		92,581		9,242
Investing activities:				
Proceeds from maturity and sale of investments		(34)		1,790
Purchase of investments		(49,628)		(4,665)
Acquisition of property and equipment		(3)		-
Acquisition of intangible assets		(618)		-
Cash used in investing activities		(50,283)		(2,875)
Financing activities:				
Proceeds from the securitization of mortgages		16,428		-
Cash provided by financing activities		16,428		-
Net increase in cash during the year		58,726		6,367
Cash and cash equivalents, beginning of year		10,100		3,733
Cash and cash equivalents, end of year	$	68,826	$	10,100
Supplemental information:				
Interest paid	$	3,982	$	2,563
Interest received	$	6,227	$	5,145
Income taxes paid	$	220	$	498

(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, 2016 were authorized for issue in accordance with a resolution of the Board of Directors on March 23, 2017. 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 are reported in investment income while unrealized gains and losses from market fluctuations are disclosed separately.

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

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

Alterna Bank has not designated any financial assets as HTM.

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

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

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

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 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 are derecognized from the balance sheets when the transaction meets the derecognition criteria. When this occurs, the related loans are derecognized. Gains or losses on these transactions are reported as interest income on the statements of income. When this does not occur, they 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.

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)), which are carried at amortized cost.

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 lease plus one option period

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 liabilities are recognized for all taxable temporary differences, except:

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

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

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

The carrying amount of deferred income tax assets is reviewed at each balance 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) Going concern
Alterna Bank's management has made an assessment of Alterna Bank's ability to continue as a going concern and is satisfied that Alterna Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon Alterna Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(ii) Fair value of financial instruments
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.

(iii) 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.

(iv) 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.

(v) Deferred income tax assets
Deferred income tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

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, 2016 and have not been applied in preparing the financial statements. Alterna Bank does not intend to adopt any of these standards early.

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 cash flows of the asset. All financial assets are measured as at FVTPL or fair value through other comprehensive income ("FVTOCI") or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39.

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 has not yet been assessed.

3. INVESTMENTS

(000s)	**31 Dec 2016**	31 Dec 2015
Designated as available-for-sale:		
Securities issued or guaranteed by Sovereigns *	**$20,553**	$18,814
Term deposits	**45,250**	4,011
Other securities	**7,293**	677
	$73,096	$23,502

*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 classified as AFS and measured and recorded at fair value. No impairments were recognized during 2016 or 2015.

4. LOANS

(000s)	**31 Dec 2016**	31 Dec 2015
Personal loans	**$17,754**	$17,999
Residential mortgage loans	**148,309**	126,501
Commercial loans	**36,714**	9,470
	202,777	153,970
Less: Allowance for impaired loans (note 5)	**(143)**	(149)
	$202,634	$153,821

5. ALLOWANCE FOR IMPAIRED LOANS AND IMPAIRED LOANS

a) ALLOWANCE FOR IMPAIRED LOANS

(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 impairment				**$61**
Collective impairment				**82**
				$143

(000s)				31 Dec 2015
	Personal Loans	Residential Mortgage Loans	Commercial Loans	Total
Balance, beginning of year	$40	$2	$-	$42
Less: Loans written off	(58)	-	-	(58)
Add: Recoveries on loans previously written off	15	-	-	15
Add: Allowance charged to operations	146	4	-	150
Balance, end of year	$143	$6	$-	$149
Individual impairment				$87
Collective impairment				62
				$149

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 2016**	31 Dec 2015
Personal loans	**$21**	$82
Residential mortgage loans	**639**	398
Commercial loans	**-**	-
	$660	$480

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 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**

(000s)				31 Dec 2015
	1-29 days	30-89 days	90 days and greater	Total
Personal loans	$538	$410	$-	$948
Residential mortgage loans	2,221	2,107	198	4,526
Commercial loans	-	-	-	-
	$2,759	$2,517	$198	$5,474

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 2016	31 Dec 2015
Loans neither past due nor impaired as a percentage of total loans	**97%**	96%
Collateral repossession: carrying value at balance sheets date of collateral properties possessed during the period (000s)	**$496**	$398

6. PROPERTY AND EQUIPMENT

(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, 2016	**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**

(000s)	Furniture and equipment	Leasehold Improvements	Total
Cost:			
Balance as at January 1, 2015	$180	$658	$838
Additions	-	-	-
Disposals	(9)	-	(9)
Balance as at December 31, 2015	171	658	829
Depreciation and impairment:			
Balance as at January 1, 2015	138	498	636
Depreciation	17	49	66
Impairment losses	-	-	-
Disposals	(9)	-	(9)
Balance as at December 31, 2015	146	547	693
Net book value:			
Balance as at January 1, 2015	42	160	202
Balance as at December 31, 2015	$25	$111	$136

Total depreciation charged to income in 2016 was $96,000 (2015 – $66,000) 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 $455,000 as at December 31, 2016 (December 31, 2015 – $423,000).

7. INTANGIBLE ASSETS

(000s)			31 Dec 2016
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Computer software	**$618**	**$125**	**$493**
	$618	**$125**	**$493**

The aggregate amount of computer software assets acquired during the year was $618,000 (2015 – $nil). Total amortization charged to income in 2016 was $125,000 (2015 – $nil) 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 2016	31 Dec 2015
Receivable from parent company	**$39,282**	$-
Prepaid expenses and deferred charges	**4,625**	134
Accrued interest receivable	**783**	222
Other	**987**	61
	$45,677	$417

9. DEPOSITS

(000s)	31 Dec 2016	31 Dec 2015
Demand deposits	**$212,209**	$54,319
Term deposits	**101,365**	85,481
Registered plans	**31,720**	20,359
	$345,294	$160,159

As at December 31, 2016, Alterna Bank held US dollar deposits from clients of US$572,000 (December 31, 2015 – US$175,000) with a carrying amount of $768,000 (December 31, 2015 – $242,000).

10. BORROWINGS

Alterna Bank has access to a $30,500,000 credit facility with Central 1 Credit Union (“Central 1”), consisting of operating lines of credit of CDN$3,490,000 and US$10,000 and a term loan of CDN$27,000,000.

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, 2015 – $nil).

Alterna Bank did not have any defaults of principal, interest or other breaches with respect to borrowing facilities in 2016 and 2015.

11. MORTGAGE SECURITIZATION LIABILITIES

(000s)	31 Dec 2016	31 Dec 2015
Mortgage securitization liabilities	**$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. These arrangements allow Alterna Bank to transfer fully insured residential mortgages to Multi-Seller Conduits which issue securities to investors.

These transactions are derecognized from the balance sheets when the transaction meets the derecognition criteria described in note 2(e)(iii). In instances where Alterna Bank's mortgage securitizations do not result in a transfer of contractual cash flows of the mortgages or an assumption of an obligation to pay the cash flows of the mortgages to a transferee, Alterna Bank has not derecognized the transferred asset and has instead recorded a secured borrowing with respect to any consideration received.

Alterna Bank currently securitizes mortgages to access liquidity through one securitization vehicle:

Under the securitization vehicle, which was first used in 2016, Alterna Bank packages residential insured mortgage loan receivables into Mortgage-Backed Securities ("MBS") and in turn sells the MBS to Canada Housing Trust ("CHT") directly through the Canada Mortgage Bond ("CMB") Program. CHT is financed through the issuance of CMBs, which are sold to third party investors. Proceeds of the issuances are used by CHT to purchase MBS from approved issuers. Under the terms of the CMB Program, Central 1, on behalf of Alterna Bank, acts as counterparty to interest rate swap agreements under which Central 1 pays CHT the interest due to investors on the CMBs and receives the interest on the MBS sold to CHT. The terms of the interest rate swap agreements are mirrored back exactly between Central 1 and Alterna Bank, resulting in Alterna Bank ultimately paying CHT the interest due to investors on the CMBs and receiving the interest on the MBS sold to CHT. Accordingly, because they prevent derecognition of the securitized assets, these interest rate swap agreements are not recognized.

As all mortgages securitized by Alterna Bank are required to be fully insured prior to sale, they pose no credit risk to Alterna Bank immediately before or any time after the securitization transaction. Alterna Bank remains exposed to the interest rate and prepayment risks associated with the underlying mortgage loan receivable assets. The assets, liabilities, revenues and expenses have not been derecognized and the transactions are accounted for as secured financing transactions in Alterna Bank's balance sheets and statements of comprehensive income.

In addition to securitizing mortgages for liquidity purposes as described above, Alterna Bank also packages residential insured mortgage loan receivables into MBS and in turn utilizes them to meet the reinvestment needs of the CMB Program. The principal received on mortgages sold securitized into the CMB Program through the securitization vehicle under the swap arrangement is required to be reinvested in accordance with CMB guidelines. These MBS are transferred to CHT as required to meet these reinvestment requirements. These MBS are derecognized until they are transferred to CHT to meet reinvestment requirements.

(000s)	31 Dec 2016	31 Dec 2015
Residential mortgages securitized – sold or transferred into the CMB Program or held as replacement assets (included in loans)	**$120,107**	$-
Self-originated MBS held in trust per CMB reinvestment guidelines (included in investments)	-	-

12. OTHER LIABILITIES

(000s)	31 Dec 2016	31 Dec 2015
Accrued interest payable	**$1,068**	$880
Trade payables and accrued expenses	**580**	377
Due to parent company	**-**	75
	$1,648	$1,332

13. LEASES

OPERATING LEASE OBLIGATIONS

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

(000s)	31 Dec 2016	31 Dec 2015
Future minimum lease payments		
Within one year	**$43**	$67
From one to five years	**61**	92
Later than five years	**-**	-
Total future minimum lease payments	**$104**	$159

During 2016, $109,000 was recognized as an expense, under occupancy expenses in the statements of income in respect of operating leases (2015 – $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, 2016 and 2015, there were 1,500,001 common shares issued and outstanding: 1,500,000 with a stated value of $10 per share and one common share with a stated value of $1 per share. There are no issued shares that have not been fully paid.

15. INTEREST INCOME AND INTEREST EXPENSE

(000s)	31 Dec 2016	31 Dec 2015
Interest income:		
Personal loans	**$695**	$747
Residential mortgage loans	**4,393**	3,946
Commercial loans	**1,701**	400
	$6,789	$5,093
Interest expense:		
Demand deposits	**$1,233**	$423
Term deposits	**1,794**	1,720
Registered plans	**363**	347
Mortgage securitization cost of funds	**780**	-
	$4,170	$2,490

Included in net interest income is $980,000 in net securitization gains of which $1,580,000 is included in interest income (gross gains less associated fees) and $600,000 in interest expense (CMB-related costs).

No interest income was recorded on impaired loans for the years ended December 31, 2016 and 2015, as they were 100% provisioned.

16. INVESTMENT INCOME

(000s)	31 Dec 2016	31 Dec 2015
Interest on financial assets available-for-sale	**$1,125**	$744
	$1,125	$744

17. OTHER INCOME

(000s)	31 Dec 2016	31 Dec 2015
Net gains on derivative financial instruments	**$647**	$-
Service charges	**198**	162
Commissions	**188**	180
Foreign exchange	**138**	44
Other	**34**	23
	$1,205	$409

18. OPERATING EXPENSES

(000s)	31 Dec 2016	31 Dec 2015
Administration	**$1,724**	$1,045
Salaries and benefits	**1,699**	1,245
Marketing and community relations	**791**	95
Occupancy	**268**	213
	$4,482	$2,598

19. INCOME TAXES

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

(000s)	31 Dec 2016	31 Dec 2015
Allowance for impaired loans	**$23**	$19
Derivatives	**15**	17
Property and equipment	**4**	9
Other	**-**	17
	$42	$62
<u>On Balance sheets:</u>		
Deferred income tax Asset	**$88**	$64
Deferred income tax Liability	**(46)**	(2)
Net deferred income tax asset	**$42**	$62

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

(000s)	31 Dec 2016		31 Dec 2015	
	Amount	**Percent**	Amount	Percent
Expected tax provision at combined federal and provincial rates	**$86**	**27%**	$251	27%
Prior year's adjustment	**-**	**-%**	5	-%
Other - net	**(5)**	**(2%)**	(3)	-%
	$81	**25%**	$253	27%

The components of income tax expense for the years ended December 31, 2016 and 2015 are as follows:

(000s)	31 Dec 2016	31 Dec 2015
	Amount	Amount
Current tax		
Current income tax	**$86**	$243
Adjustment in respect of current income tax of prior years	**-**	4
Deferred income tax		
Relating to the origination and reversal of timing differences	**(5)**	6
Income tax expense reported in statements of income	**$81**	$253

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

(000s)	31 Dec 2016	31 Dec 2015
Change in unrealized gains and losses on available-for-sale financial assets	**($12)**	$21
	($12)	$21

There are no tax related contingent liabilities and contingent assets as at December 31, 2016 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 2016**		31 Dec 2015
	Carrying value	**Fair value**	Carrying value	Fair value
Available-for-sale:				
Cash and cash equivalents	**$68,826**	**$68,826**	$10,100	$10,100
Investments	**73,096**	**73,096**	23,502	23,502
Designated as FVTPL:				
Derivative financial instruments				
- purchased options	**75**	**75**	63	63
- bond forwards	**27**	**27**	-	-
Loans and receivables:				
Loans				
- personal loans	**17,754**	**17,794**	17,999	18,022
- residential mortgage loans	**148,309**	**152,518**	126,501	129,374
- commercial loans	**36,714**	**36,827**	9,470	9,756
TOTAL ASSETS	**$344,801**	**$349,163**	$187,635	$190,817
Other liabilities:				
Deposits				
- demand deposits	**$212,209**	**$222,581**	$54,319	$54,319
- term deposits	**101,365**	**103,359**	85,481	86,740
- registered plans	**31,720**	**30,575**	20,359	20,047
Mortgage securitization liabilities	**17,028**	**17,028**	-	-
Designated as FVTPL:				
Derivative financial instruments				
- embedded options	**75**	**75**	63	63
- bond forwards	**39**	**39**	-	-
TOTAL LIABILITIES	**$362,436**	**$373,657**	$160,222	$161,169

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 quoted market prices in active markets.

(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, 2016, 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, 2016, 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, 2016 and 2015:

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

December 31, 2015 (000s)	Date of valuation	Level 1	Level 2	Level 3	Total
Assets measured at fair value:					
Financial investments AFS	31 Dec 2015	$-	$23,502	$-	$23,502
Derivative financial instruments					
- purchased options	31 Dec 2015	-	63	-	63
Assets for which fair values are disclosed:					
Loans					
- personal loans	31 Dec 2015	-	-	18,022	18,022
- residential mortgage loans	31 Dec 2015	-	-	129,374	129,374
- commercial loans	31 Dec 2015	-	-	9,756	9,756
Liabilities measured at fair value:					
Derivative financial instruments					
- embedded options	31 Dec 2015	$-	$63	$-	$63
Liabilities for which fair values are disclosed:					
Deposits					
- demand deposits	31 Dec 2015	-	54,319	-	54,319
- term deposits	31 Dec 2015	-	86,740	-	86,740
- registered plans	31 Dec 2015	-	20,047	-	20,047

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2016 and 2015.

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 residential mortgages (including multi-family mortgages (under commercial loans)) as 62% (2015 – 53%) of these mortgages are insured to a maximum of 95% 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 excluding the amount of the insured mortgages, net of impairment losses, represents Alterna Bank's maximum exposure to credit risk without taking account of the value of any collateral obtained. The maximum exposure to credit risk was $91,824,000 as at December 31, 2016 (2015 – $87,573,000).

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, 2016, the results for these measures were 1.41% (2015 – 0.33%) and 0.24% (2015 – 2.42%), respectively. Alterna Bank was in compliance with the policy as at December 31, 2016.

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-16	31-Dec-15
	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	$ 15,647	$ 53,179	$ -	$ -	$ -	$ -	$ 68,826	$ 10,100
Interest Rates	0.00%	0.82%	0.00%	0.00%	0.00%	0.00%	0.63%	0.00%
Investments	$ 607	$ -	$ 34,144	$ 9,841	$ 28,504	$ -	$ 73,096	$ 23,502
Interest Rates	0.00%	0.95%	0.00%	0.00%	2.30%	0.00%	0.90%	2.30%
Personal loans	$ -	$ 16,281	$ 150	$ 446	$ 781	$ -	$ 17,658	$ 17,856
Interest Rates	0.00%	3.74%	6.85%	6.85%	7.18%	0.00%	3.99%	4.05%
Residential mortgage loans	$ 543	$ 5,582	$ 10,924	$ 28,370	$ 102,716	$ 127	$ 148,262	$ 126,495
Interest Rates	0.00%	2.36%	2.86%	3.01%	2.75%	3.55%	2.80%	3.07%
Commercial loans	$ -	$ 2,508	$ 10,128	$ 1,094	$ 22,984	$ -	$ 36,714	$ 9,470
Interest Rates	0.00%	3.70%	2.99%	4.65%	2.78%	0.00%	2.96%	4.41%
Other	$ 46,388	$ 102	$ -	$ -	$ -	$ -	$ 46,490	$ 876
TOTAL ASSETS	$ 63,185	$ 77,652	$ 55,346	$ 39,751	$ 154,985	$ 127	$ 391,046	$ 188,299
Deposits	$ 174	$ 225,452	$ 18,883	$ 33,975	$ 66,810	$ -	$ 345,294	$ 160,159
Interest Rates	0.00%	1.56%	1.54%	1.71%	1.83%	0.00%	1.63%	1.44%
Mortgage securitization liabilities	$ -	$ -	$ 250	$ -	$ 16,778	$ -	$ 17,028	$ -
Interest Rates	0.00%	0.00%	0.00%	0.00%	1.39%	0.00%	1.37%	1.44%
Other	$ 1,648	$ 114	$ -	$ -	$ -	$ -	$ 1,762	$ 1,395
Shareholder's equity	$ 26,962	$ -	$ -	$ -	$ -	$ -	$ 26,962	$ 26,745
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 28,784	$ 225,566	$ 19,133	$ 33,975	$ 83,588	$ -	$ 391,046	$ 188,299
MATCHING GAP	$ 34,401	-$ 147,914	$ 36,213	$ 5,776	$ 71,397	$ 127	$ -	$ -

(ii) Sensitivity Analysis - Based on Alterna Bank's interest rate positions as at December 31, 2016, an immediate and sustained 100 basis point increase in interest rates across all maturities would increase net interest income and decrease OCI by approximately $91,000 and $70,000 over the next 12 months, respectively. An immediate and sustained 100 basis point decrease in interest rates, sustained at a floor of zero would decrease net interest income and increase OCI by approximately $92,000 and $144,000, respectively.

(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, 2016, the percentage of foreign currency denominated financial assets is within 90%–110% of foreign currency denominated financial liabilities.

For a 1% 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, 2015, 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 2016**	31 Dec 2015
	Less than 1 year	**1 to 5 years**	**Over 5 years**	**No specified maturity**	**Total**	Total
Deposits	**$52,858**	**$66,810**	**$-**	**$225,626**	**$345,294**	$160,159

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, 2016 and 2015:

(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**

(000s)					31 Dec 2015
	Maturities of derivatives (Notional amounts)			Fair Value	
	Within 1 Year	1 to 5 Years	Total	Derivative Instrument assets	Derivative Instrument liabilities
Other derivatives					
Index-linked call options	$186	$941	$1,127	$63	$63
	$186	$941	$1,127	$63	$63

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 or market 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 $1,012,000 of indexed term deposits to its clients as at December 31, 2016 (2015 – $1,127,000). 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, 2016			
(000s)	**Replacement Cost**	**Credit Equivalent Amount**	**Risk-Weighted Amount**
Bond forwards	**$27**	**$-**	**$5**
Purchased options	**75**	**75**	**30**
	$102	**$75**	**$35**

December 31, 2015			
(000s)	Replacement Cost	Credit Equivalent Amount	Risk-Weighted Amount
Purchased options	$63	$86	$30
	$63	$86	$30

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 subject to the following limits:

Leverage ratio	Minimum of 6%
Capital to risk-weighted assets	Minimum of 16%

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

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

Total capital includes Tier 1 and Tier 2 capital, net of certain deductions. Tier 1 capital represents more permanent forms of capital, and primarily includes common shareholder's equity and preferred shares less deductions required under Basel III. 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 2016	31 Dec 2015
Tier 1 capital (000s)	**$26,920**	$26,683
Tier 2 capital (000s)	**$-**	$-
Total capital (000s)	**$26,920**	$26,683
Total risk-weighted assets (000s)	**$117,462**	$46,192
Tier 1 capital ratio	**22.9**	57.8
Total capital ratio	**22.9**	57.8

As at December 31, 2016, Alterna Bank's leverage ratio was 6.84% (2015 – 14.02%). 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, 2016, the credit instruments approved but not yet disbursed were as follows:

(000s)	Total	Average term	Average rate
Residential mortgage loans	$2,233	5 years	2.41%
Commercial mortgage loans	$14,547	5 years	Prevailing rates on date disbursed
Lines of credit unfunded	$23,938	-	Prevailing rates on date disbursed

b) CONTINGENCIES

In the normal course of operations, Alterna Bank becomes involved in various claims and legal proceedings. While the final outcome with respect to claims and legal proceedings pending as at December 31, 2016 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 2016**	31 Dec 2015
Cash on hand	**$1,957**	$227
Deposits with other financial institutions	**66,869**	9,873
	$68,826	$10,100

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 $15,113,000 and $20,975,000 as at December 31, 2016 and 2015 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 2016**	31 Dec 2015
Short-term employee benefits	**$41**	$36
Post-employment benefits	**-**	-
Other long-term employee benefits	**-**	-
Termination benefits	**-**	-
Total KMP compensation	**$41**	$36

During 2016 and during 2015, KMP were not directly compensated by Alterna Bank as they are employees of the parent, Alterna Savings.

(ii) Loans to KMP

(000s)	**31 Dec 2016**	31 Dec 2015
(1) Aggregate value of loans outstanding as at balance sheets date	**$881**	$-
(2) Total value of personal lines of credit facilities as at balance sheets date	**-**	-
Less: Amounts drawn down and included in loan values and included in (1)	**(881)**	-
Net balance available	**$-**	$-
Aggregate value of loans disbursed during the year:		
Residential mortgages	**$908**	$-
Personal loans	**-**	-
Total	**$908**	$-

(iii) Deposits from KMP

(000s)	**31 Dec 2016**	31 Dec 2015
Total value of demand, term and registered plans deposits from KMP	**$404**	$124
Total amount of interest paid on deposits to KMP	**3**	2

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 2016 was $1,715,000 (2015 – $1,112,000) 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 $39,191,000 to Alterna Bank (2015 – Alterna Bank owed Alterna Savings $75,000).

c) DEPOSITS

As at December 31, 2016, deposits included demand and term deposits issued to Alterna Savings in the amount of $34,954,000 (2015 – $24,948,000). Accrued interest payable as at December 31, 2016 was $261,000 (2015 – $247,000) and is included in other liabilities. The term deposits bear a weighted average interest rate of 1.89% (2015 – 2.09%) and mature between 2017 and 2020. The interest incurred on these deposits during the year totalled $648,000 (2015 – $661,000).

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, 2016 and 2015.

(000s)		As at December 31, 2016			As at December 31, 2015	
	Within 1 year	**After 1 year**	**Total**	Within 1 year	After 1 year	Total
Assets						
Cash and cash equivalents	**$68,826**	**$-**	**$68,826**	$10,100	$-	$10,100
Investments	**44,592**	**28,504**	**73,096**	-	23,502	23,502
Personal loans	**16,969**	**785**	**17,754**	17,945	54	17,999
Residential mortgages	**45,433**	**102,876**	**148,309**	43,249	83,252	126,501
Commercial loans	**13,730**	**22,984**	**36,714**	3,145	6,325	9,470
Allowance for impaired loans	**(143)**	**-**	**(143)**	(149)	-	(149)
Property and equipment	**-**	**43**	**43**	-	136	136
Intangible assets	**-**	**493**	**493**	-	-	-
Derivative financial instruments	**-**	**102**	**102**	-	63	63
Income tax receivable	**133**	**-**	**133**	198	-	198
Deferred income tax asset	**-**	**42**	**42**	-	62	62
Other assets	**45,677**	**-**	**45,677**	417	-	417
Total assets	**$235,217**	**$155,829**	**$391,046**	$74,905	$113,394	$188,299
Liabilities						
Demand deposits	**$212,209**	**$-**	**$212,209**	$54,319	$-	$54,319
Term deposits	**44,613**	**56,752**	**101,365**	39,702	45,779	85,481
Registered plans	**21,662**	**10,058**	**31,720**	12,714	7,645	20,359
Mortgage securitization liabilities	**-**	**17,028**	**17,028**	-	-	-
Derivative financial instruments	**-**	**114**	**114**	-	63	63
Other liabilities	**1,648**	**-**	**1,648**	1,332	-	1,332
Total liabilities	**$280,132**	**$83,952**	**$364,084**	$108,067	$53,487	$161,554
Net	**($44,915)**	**$71,877**	**26,962**	($33,162)	$59,907	$26,745

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, 2016.

29. COMPARATIVE AMOUNTS

Certain 2015 comparative amounts have been reclassified to conform to the financial statement presentation adopted in 2016.