

Financial Statements of
CS ALTERNA BANK
December 31, 2023



Independent auditor's report

To the Shareholder of CS Alterna Bank

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CS Alterna Bank (the Bank) as at December 31, 2023 and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards.

What we have audited

The Bank's financial statements comprise:

- the balance sheet as at December 31, 2023;
- the statement of income for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in shareholder's equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

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

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

Independence

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting 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.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2500, Toronto, Ontario, Canada M5J 0B2
T.: +1 416 863 1133, F.: +1 416 365 8215, Fax to mail: ca_toronto_18_york_fax@pwc.com

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 6, 2024

TABLE OF CONTENTS

BALANCE SHEETS.....1

STATEMENTS OF INCOME.....2

STATEMENTS OF COMPREHENSIVE INCOME.....3

STATEMENTS OF CHANGES IN SHAREHOLDER’S EQUITY.....4

STATEMENTS OF CASH FLOWS.....5

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION 6

2. MATERIAL ACCOUNTING POLICIES..... 6

3. LOANS AND ADVANCES16

4. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS16

5. INVESTMENTS27

6. INTANGIBLE ASSETS27

7. OTHER ASSETS28

8. DEPOSITS28

9. MORTGAGE SECURITIZATION LIABILITIES28

10. OTHER LIABILITIES29

11. ACCUMULATED OTHER COMPREHENSIVE LOSS29

12. SHARE CAPITAL29

13. INTEREST INCOME AND INTEREST EXPENSE.....30

14. INTEREST INCOME FROM INVESTMENTS.....30

15. SECURITIZATION INCOME.....30

16. INCOME TAXES31

17. FAIR VALUE OF FINANCIAL INSTRUMENTS32

18. DERIVATIVE FINANCIAL INSTRUMENTS.....34

19. CAPITAL MANAGEMENT36

20. COMMITMENTS AND CONTINGENCIES.....37

21. NOTES TO STATEMENTS OF CASH FLOWS37

22. RELATED PARTY TRANSACTIONS.....38

23. SELECTED DISCLOSURES40

CS ALTERNA BANK**Balance Sheets** (in thousands of dollars)**December 31, 2023**

As at	Note	31 December 2023	31 December 2022
ASSETS			
Cash and cash equivalents	21	\$ 8,332	\$ 15,217
Investments	5	52,465	55,541
Loans and advances	3, 4	1,010,512	1,028,634
Intangible assets	6	1,020	1,014
Derivative financial instruments	18	5,166	8,317
Income tax receivable		-	3,611
Other assets	7	33,458	35,187
		\$ 1,110,953	\$ 1,147,521
LIABILITIES AND SHAREHOLDER'S EQUITY			
Liabilities:			
Deposits	8	\$ 546,504	\$ 576,603
Mortgage securitization liabilities	9	\$ 396,234	343,275
Derivative financial instruments	18	\$ -	3
Income tax payable		\$ 2,970	-
Deferred income tax liability	16	\$ 144	1,371
Other liabilities	10	\$ 79,418	146,210
		1,025,270	1,067,462
Shareholder's equity:			
Share capital	12	57,000	57,000
Retained earnings		31,101	26,540
Accumulated other comprehensive loss	11	(2,418)	(3,481)
		85,683	80,059
		\$ 1,110,953	\$ 1,147,521

On behalf of the Board:


 Norman Ayoub
 Director



 Richard J. Neville, CPA, CA
 Director

(See accompanying notes to the financial statements)

CS ALTERNA BANK
Statements of Income (in thousands of dollars)
December 31, 2023

For the years ended	Note	31 December 2023	31 December 2022
Interest income	13	\$ 31,615	\$ 23,919
Interest income from Investments	14	1,021	2,287
		32,636	26,206
Interest expense	13	25,583	16,631
Net interest income		7,053	9,575
Loan costs		78	73
Net interest income after loan costs		6,975	9,502
Net gains on derivative financial instruments		99	1,864
Service charges		349	423
Foreign exchange		12	236
Other		32	49
Commissions		42	48
Securitization income (loss)	15	4,090	(1,155)
Other income		4,624	1,465
Net interest and other income		11,599	10,967
Administration		2,301	4,043
Salaries and benefits		2,986	2,470
Marketing and community relations		138	164
Operating expenses		5,425	6,677
Income before income taxes		6,174	4,290
Provision for income taxes	16	1,613	1,136
Current		2,867	(314)
Deferred		(1,254)	1,450
		1,613	1,136
Net income		\$ 4,561	\$ 3,154

(See accompanying notes to the financial statements)

CS ALTERNA BANK**Statements of Comprehensive Income** (in thousands of dollars)**December 31, 2023**

For the years ended	31 December 2023	31 December 2022
Net income	\$ 4,561	\$ 3,154
Other comprehensive income (loss)		
Other comprehensive (loss) income to be reclassified to income in subsequent periods:		
<u>Investments in debt instruments measured at fair value through other comprehensive (loss) income</u>		
Net unrealized losses on debt instruments measured at fair value through other comprehensive income (loss) ⁽¹⁾	1,057	(2,605)
<u>Cash flow hedges:</u>		
Changes arising during the year ⁽²⁾	6	(99)
Add: Reclassification adjustments for gain included in income ⁽³⁾	-	3
	1,063	(2,701)
Comprehensive income	\$ 5,624	\$ 453

⁽¹⁾ Net of income tax recovery of \$381 (2022 - \$939).

⁽²⁾ Net of income tax recovery of \$2 (2022- \$35).

⁽³⁾ Net of income tax expense of \$Nil (2022 - \$Nil).

(See accompanying notes to the financial statements)

CS ALTERNA BANK**Statements of Changes in Shareholder's Equity** (in thousands of dollars)**December 31, 2023**

For the years ended	31 December 2023	31 December 2022
Share capital:		
Balance, beginning of year	\$ 57,000	\$ 57,000
Net shares issued	-	-
Balance, end of year	57,000	57,000
Retained earnings, net of tax:		
Balance, beginning of year	26,540	23,386
Net income	4,561	3,154
Balance, end of year	31,101	26,540
Accumulated other comprehensive (loss) income, net of tax:		
Balance, beginning of year	(3,481)	(780)
Other comprehensive (loss) income	1,063	(2,701)
Balance, end of year	(2,418)	(3,481)
Shareholder's equity	\$ 85,683	\$ 80,059

(See accompanying notes to the financial statements)

CS ALTERNA BANK
Statements of Cash Flows (in thousands of dollars)
December 31, 2023

For the years ended	31 December 2023	31 December 2022
Operating activities:		
Net income	\$ 4,561	\$ 3,154
Add non-cash items:		
Provision for credit losses	40	22
Depreciation and amortization of		
Intangible assets	175	142
Deferred charges and premiums	2,733	2,918
(Gain) loss on:		
Sale of investments	-	(208)
Sale and securitization of loans	(1,230)	398
Adjustments for net changes in operating assets and liabilities		
Fair value of loans	3,280	7,309
Interest receivable	(258)	974
Deferred income taxes	-	44
Loans, net of allowance for impaired loans	12,068	(154,690)
Assets relating to derivative financial instruments	3,143	(5,557)
Mortgage securitization liabilities	52,959	139,847
Interest payable	2,542	859
Deferred income taxes	(1,227)	1,371
Deposits	(30,099)	(213,380)
Liabilities relating to derivative financial instruments	(3)	(1,963)
Other items, net	(57,027)	137,760
Cash used in operating activities	(8,343)	(81,000)
Investing activities:		
Proceeds from maturity and sale of investments	1,639	127,747
Purchase of investments	-	(55,358)
Acquisition of intangible assets	(181)	(961)
Cash provided by investing activities	1,458	71,428
Net decrease in cash and cash equivalents during the year	(6,885)	(9,572)
Cash and cash equivalents, beginning of year	15,217	24,789
Cash and cash equivalents, end of year	\$ 8,332	\$ 15,217
Supplemental information related to operating activities:		
Interest paid	\$ 23,041	\$ 15,773
Interest received	\$ 31,357	\$ 24,893
Income taxes received	\$ (3,358)	\$ (4,318)

(See accompanying notes to the financial statements)

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

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* (“the Act”) on October 2, 2000. Alterna Bank is a wholly owned subsidiary of Alterna Savings and Credit Union Limited (“Alterna Savings”). Alterna Savings is the ultimate parent. Alterna Bank is regulated by the Office of the Superintendent of Financial Institutions (“OSFI”).

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, 2023 were authorized for issue in accordance with a resolution of the Board of Directors on March 5th, 2024.

2. MATERIAL ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The financial statements of Alterna Bank have been prepared in accordance with IFRS Accounting Standards.

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 an unconditional and 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 investments at fair value through other comprehensive income (“FVOCI”), derivative financial instruments and financial assets and financial liabilities held at fair value through profit or loss (“FVTPL”), which have been measured at fair value.

The significant accounting policies are as follows:

a) CHANGES IN ACCOUNTING POLICIES

Alterna Bank has applied the following narrow scope amendments for the first time for its annual reporting period commencing January 1, 2023:

- *IAS 1 – Disclosures of accounting policies, and*
- *IAS 8 – Changes in estimates vs changes in accounting policies.*

The amendments listed above did not have any impact on amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

b) CASH AND CASH EQUIVALENTS

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

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

c) 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.

d) FINANCIAL INSTRUMENTS

i) Classification and Measurement

Financial assets

Alterna Bank classifies its financial assets in the following measurement categories:

- FVTPL;
- FVOCI; or
- Amortized cost.

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

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

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

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

On initial recognition of an equity instrument that is not held for trading, Alterna Bank may irrevocably elect to present subsequent changes in FVOCI. This election is made on an investment-by-investment basis. When this election is used, fair value gains and losses are recognized in other comprehensive income (loss) (“OCI”) and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when Alterna Bank’s right to receive payments is established. See note 5 for details on which investments Alterna Bank has taken the election on.

All other financial assets are classified as measured at FVTPL. In addition, on initial recognition, Alterna Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Alterna Bank has previously designated certain loans as FVTPL. See note 3 for details.

The classification for debt and equity instruments is described below:

Business model assessment: the business model assessment reflects how Alterna Bank manages the assets in order to generate cash flows. That is, whether the objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows from the sale of assets. If neither of these is applicable, then they are classified at FVTPL. Alterna Bank assesses the business model at a portfolio level and uses judgment which is supported by objective evidence including:

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

- The frequency, timing, reason and volume of sales in prior periods and expectations about future sales activity
- whether the assets are held for trading purposes or held as part of a portfolio that is managed together for short-term profits
- how the asset's performance is evaluated and reported to key management; and
- how risks are assessed and managed.

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

Financial assets are not reclassified subsequent to their initial recognition, except in the reporting period after Alterna Bank changes its business model for managing financial assets. Such reclassifications are expected to be very rare and infrequent.

ii) Initial recognition and measurement

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

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

Amortized cost and effective interest rate

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

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

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

Trade date accounting is used for all financial instruments.

Financial Liabilities

Financial liabilities are classified at amortized cost or FVTPL. Alterna Bank has designated certain financial liabilities as FVTPL in the following circumstances:

- The liabilities form part of a group of assets and liabilities that is managed, evaluated and reported internally on a fair value basis; or
- The designation eliminates or significantly reduces an accounting mismatch that would arise otherwise.

Classification of all financial instruments is shown in Note 17.

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

e) IMPAIRMENT OF FINANCIAL ASSETS

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

- Loans at amortized cost;
- Financial assets that are debt instruments classified at FVOCI; and
- Loan commitments and guarantees.

No loss allowance is recognized on equity instruments at FVOCI.

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

- Debt instruments that are determined to have low credit risk at the reporting date; or
- Loans at amortized cost and FVOCI on which credit risk has not increased significantly since their initial recognition.

All debt instruments were measured with 12-month ECL as they were determined to have a low credit risk as at the reporting date.

The credit risk on debt instruments is considered low if there is:

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

Alterna Bank also considers debt instruments to have a low credit risk when its creditworthiness is judged to be ‘investment grade’, which Alterna Bank broadly defines as equivalent to a credit rating of Baa or higher.

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

i) Measurement of ECL

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

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls measured over either (i) the next 12 months or (ii) the remaining term. (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that Alterna Bank expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to Alterna Bank if the commitment is drawn down and the cash flows that Alterna Bank expects to receive.

See further discussion in note 4.

ii) Credit-impaired financial assets

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

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

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

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

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

Bad debt written off - When it is considered that there is no realistic prospect of recovery, all efforts have ceased to collect amounts, and all collateral has been realized or transferred to Alterna 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 the loss allowance.

(iii) Loans and loan impairment

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

Loan interest on impaired loans - Once a loan is identified as credit-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 on loans at amortized cost (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. Transaction costs on loans classified at FVTPL are recovered in the consolidated statements of income.

Loan costs - Loan costs include the provision for loan losses, bad debt written off and collection costs.

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

- If the expected restructuring will not result in derecognition of the existing asset, then a modification gain or loss will be measured as the difference between the previous gross carrying amount of the loan and the revised gross carrying amount of the loans, with the latter calculated as the present value of the new estimated cash flows discounted at the original effective interest rate. The financial asset continues to be subject to the same assessments for significant increase in credit risk relative to initial recognition and credit-impairment; or
- If the expected restructuring will result in derecognition of the original asset, and recognition of the new financial asset, the new financial asset will generally be recorded as Stage 1, unless it is determined to be credit impaired at the time of recognition. For purposes of assessing for significant increases in credit risk, the date of initial recognition for the new financial asset is the date of the modification.

f) MODIFICATIONS

i) Financial assets

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

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, Alterna Bank recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in income.

ii) Financial liabilities

Alterna Bank derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value.

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in income.

g) 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.

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 securitization

Alterna Bank securitizes insured residential and commercial mortgage loans through the creation of mortgage-backed securities (“MBS”) under the National Housing Act (“NHA”) MBS program. 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. All securitization sale transactions are reviewed and assessed based on the above noted derecognition criteria. 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. For these transactions, the present value of the future residual cash flows is recorded on the balance sheets under other assets. Gains or losses 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 sheets and the proceeds received are recognized as a mortgage securitization liability in the balance sheets.

h) DERIVATIVES AND HEDGING

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

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

Embedded derivatives are not separated from financial assets. Derivatives embedded in other financial instruments and executory contracts 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 18(b)), with respect to which the host deposits are carried at amortized cost.

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

ii) Hedge accounting

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

i) 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 rate of exchange in effect at the date of the transaction. Foreign currency exchange gains and losses are recognized in other income during the year.

j) 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 2 to 15 years.

k) 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.

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

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.

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 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.

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

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:

Significant Judgments

i) Determination of business model

The assessment to determine the appropriate business model is judgmental. Alterna Bank determines which assets are held to collect and the assessment of whether the contractual terms of the financial assets are SPPI. See further details in note 2(d)(ii).

ii) Derecognition of securitization arrangement

Judgment is exercised in concluding whether all the risks and rewards of loans under securitization arrangement have been transferred out to meet the derecognition criteria for MBS. See further details in note 2(g)(iii) and note 15.

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

Use of Estimates and assumptions

i) Fair value of financial instruments

Alterna Bank measures financial instruments such as cash equivalents, investments classified as FVOCI or designated as FVTPL and derivatives at fair value at each balance sheets date.

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

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

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 reassessing 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) Measurement of the ECL

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

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

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

Explanations of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 4, which also sets out key sensitivities of the ECL to changes in these elements.

n) INTEREST RATE BENCHMARK REFORM (“IBOR REFORM”)

The transition from Interbank Offered Rates (“IBORs”) to alternative benchmark interest rates is a global initiative that will impact financial instruments referencing IBORs around the world, including in Canada.

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

On August 2020, the International Accounting Standards Board published *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)* (the “Amendments”) which amended IFRS Accounting Standards in response to the IBOR Reform. The amendments address the accounting issues that arise when financial instruments that reference IBORs transition to nearly risk -free rates (RFRs), including the effects of changes to contractual cash flows or hedging relationships. Alterna Bank adopted the amendments as at January 1, 2021.

On May 16, 2022, Refinitiv Benchmark Services (UK) Limited (RBSL), the administrator of the Canadian Dollar Offered Rate (“CDOR”) announced that it would cease the calculation and publication of all tenors of CDOR immediately following a final publication on Friday, June 28, 2024.

Alterna Bank has established an enterprise-wide program, aimed at ensuring the transition from CDOR to RFRs. The program has been focused on identifying and quantifying the Bank's exposures to CDOR, assessing changes to processes and impacts on hedge accounting, as well as evaluating existing contract amendment language. Alterna Bank has in place detailed plans, processes and procedures to support the transition of its CDOR exposure to RFRs.

The IBOR reform exposes Alterna Bank to various risks, which Alterna Bank is monitoring closely, including but not limited to risks arising from market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform and operational risks arising from changes to Alterna Bank’s processes.

The following table discloses the non-derivative financial assets, and derivative financial instruments subject to the IBOR reform as at December 31, 2023 that have yet to transition to alternative benchmark rates.

(000s)	Maturing after June 28, 2024
Non-derivative financial assets ⁽¹⁾	51,111
Derivative financial instruments ⁽²⁾	-

⁽¹⁾ Non-derivative financial assets include outstanding balances on loans.

⁽²⁾ Derivative financial instruments include the notional amounts of interest rate swaps. As at December 31, 2023, the notional amount of derivatives indexed to CDOR 3-month tenors in qualifying hedge accounting relationships that are maturing after June 28, 2024 and have yet to transition to a RFR was nil (2022 - nil).

o) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards or interpretations are not yet effective for the year ended December 31, 2023 and have not been applied in preparing these 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:

i) Amendments to IAS 1, Presentation of Financial Statements on classification of liabilities

Narrow-scope amendments to IAS 1 clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The amendment also clarifies what IAS 1 means when it refers to the ‘settlement’ of a liability. The amendments are effective on January 1, 2024. Management is currently in the process of evaluating the potential impact.

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

3. LOANS AND ADVANCES

(000s)	31 Dec 2023	31 Dec 2022
Loans and advances at amortized cost:		
Personal loans	\$10,149	\$11,131
Residential mortgage loans	793,817	739,120
Commercial loans	32,491	37,822
	\$836,457	788,073
Less: Loss allowance (note 4)	(107)	(55)
Total loans and advances at amortized cost	\$836,350	\$788,018
Loans and advances at FVTPL:		
Residential mortgage loans	\$167,795	\$234,153
Commercial loans	6,367	6,463
Total loans and advances at FVTPL	\$174,162	\$240,616
	\$1,010,512	\$1,028,634

4. 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. Cash and cash equivalents on the balance sheets are placed with above grade rating financial institutions and therefore not exposed to significant credit risks.

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, \$2,000,000 in residential mortgage loans per borrower, \$5,000,000 in commercial mortgage loans and collateral demand or term loans per borrower and \$5,000,000 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.

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.

CS ALTERNA BANK

Notes to the Financial Statements

December 31, 2023

Credit risk is limited for mortgages secured by residential properties as 90% (2022 – 89%) 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 are diversified by limiting investments in any one issuer based on issuer type and associated maximum percentage of regulatory capital.

For investments and derivatives, risk is measured by reviewing exposure to individual counterparties to ensure total fair value of investments and derivatives is 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.

(i) Amounts arising from ECL

Definition of default

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

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

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

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

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

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

Measurement of ECL

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

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

CS ALTERNA BANK

Notes to the Financial Statements

December 31, 2023

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

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

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

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

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

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

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

However, for line of credit facilities that include both a loan and an undrawn component, Alterna Bank measures ECL over a period longer than the maximum contractual period. This occurs if Alterna Bank’s contractual ability to demand repayment and cancel the undrawn commitment does not limit Alterna Bank’s exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. Alterna Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when Alterna Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that Alterna Bank expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms

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

SICR

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

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

- The remaining lifetime PD as at the reporting date; with

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

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

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

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

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

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

Risk ratings

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

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

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

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

Beacon Scores

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

Other factors contributing to a SICR

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

Generating the term structure of PD

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

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

Forward-looking information

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

This analysis includes the identification and calibration of relationships between changes in default rates, changes in key macro-economic factors and in-depth analysis of the impact of certain other factors on the risk of default. For most exposures, key macro-economic indicators include housing price index, Canadian equity markets, and unemployment. The changes in the parameters of macro-economic factors from the actuals assumptions used in the determination of Alterna Bank ECL are not material.

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

The following table compares the probability weight ECL (determined as the reported loss allowance) against the baseline case ECL to illustrate the impact of applying probability weights to each scenario in the determination of allowance for credit losses. The differences are isolated to the measurement of ECL without considering the impact of migration between stages.

000s	31 Dec 2023	31 Dec 2022
Probability-weighted ECL (reported loss allowance)	\$107	\$55
Baseline case ECL	50	50
Difference	\$57	\$5

Use of management overlays

Management overlays to ECL estimates are adjustments used in circumstances where Alterna Bank believes existing inputs, assumptions and model techniques do not capture all relevant risks. Examples of such circumstances include the emergence of new macroeconomic, microeconomic or political events, along with expected changes to parameters, models or data that are not incorporated in Alterna Bank's current parameters, internal risk ratings migrations, or forward-looking information. Management determined no overlays are needed in 2023.

Modified financial assets

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

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

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

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

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

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

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

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

There were no material modifications during the reporting period.

Reconciliation of opening to closing balance of the loss allowance

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

(000s)	31 Dec 2023			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit impaired loans	Stage 3 Lifetime ECL - credit- impaired loans	Total
Loss allowance on Personal Loans				
As at 1 Jan	\$ 17	\$ -	\$ 4	\$ 21
Amounts written off	-	-	-	-
Transfers to (from) Stage 1 - 12-month ECL	6	1	(7)	-
Transfers to (from) Stage 2 - Lifetime ECL - not credit-impaired loans	-	11	(11)	-
Transfers to (from) Stage 3 - Lifetime ECL - credit-impaired loans	-	-	-	-
Recoveries on loans previously written off	-	-	18	18
Allowance charged to (recovered from) operations	(9)	2	(4)	(11)
As at 31 Dec	\$ 14	\$ 14	\$ -	\$ 28
Loss allowance on Residential Mortgages				
As at 1 Jan	\$ 19	\$ -	\$ -	\$ 19
Amounts written off	-	-	-	-
Transfers to (from) Stage 1 - 12-month ECL	-	-	-	-
Transfers to (from) Stage 2 - Lifetime ECL - not credit-impaired loans	-	-	-	-
Transfers to (from) Stage 3 - Lifetime ECL - credit-impaired loans	-	-	-	-
Recoveries on loans previously written off	-	-	-	-
Allowance charged to (recovered from) operations	(19)	-	-	(19)
As at 31 Dec	\$ -	\$ -	\$ -	\$ -
Loss allowance on Commercial Mortgages				
As at 1 Jan	\$ 15	\$ -	\$ -	\$ 15
Amounts written off	-	-	-	-
Transfers to (from) Stage 1 - 12-month ECL	79	-	(79)	-
Transfers to (from) Stage 2 - Lifetime ECL - not credit-impaired loans	-	(3)	3	-
Transfers to (from) Stage 3 - Lifetime ECL - credit-impaired loans	-	2	2	4
Recoveries on loans previously written off	-	-	-	-
Allowance charged to (recovered from) operations	(15)	1	74	60
As at 31 Dec	\$ 79	\$ -	\$ -	\$ 79
Total as at 31 Dec	\$ 93	\$ 14	\$ -	\$ 107

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

(000s)	31 Dec 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit impaired loans	Stage 3 Lifetime ECL - credit- impaired loans	Total
Loss allowance on Personal Loans				
As at 1 Jan	\$ 3	\$ -	\$ 39	\$ 42
Amounts written off	-	-	(27)	(27)
Transfers to (from) Stage 1 - 12-month ECL	-	-	-	-
Transfers to (from) Stage 2 - Lifetime ECL - not credit-impaired loans	-	-	-	-
Transfers to (from) Stage 3 - Lifetime ECL - credit-impaired loans	-	-	-	-
Recoveries on loans previously written off	-	-	8	8
Allowance charged to (recovered from) operations	14	-	(16)	(2)
As at 31 Dec	\$ 17	\$ -	\$ 4	\$ 21
Loss allowance on Residential Mortgages				
As at 1 Jan	\$ 2	\$ 2	\$ 4	\$ 8
Amounts written off	-	-	-	-
Transfers to (from) Stage 1 - 12-month ECL	-	-	-	-
Transfers to (from) Stage 2 - Lifetime ECL - not credit-impaired loans	-	-	-	-
Transfers to (from) Stage 3 - Lifetime ECL - credit-impaired loans	-	-	-	-
Recoveries on loans previously written off	-	-	-	-
Allowance charged to (recovered from) operations	17	(2)	(4)	11
As at 31 Dec	\$ 19	\$ -	\$ -	\$ 19
Loss allowance on Commercial Mortgages				
As at 1 Jan	\$ -	\$ -	\$ -	\$ -
Amounts written off	-	-	-	-
Transfers to (from) Stage 1 - 12-month ECL	-	-	-	-
Transfers to (from) Stage 2 - Lifetime ECL - not credit-impaired loans	-	-	-	-
Transfers to (from) Stage 3 - Lifetime ECL - credit-impaired loans	-	-	-	-
Recoveries on loans previously written off	-	-	-	-
Allowance charged to (recovered from) operations	15	-	-	15
As at 31 Dec	\$ 15	\$ -	\$ -	\$ 15
Total as at 31 Dec	\$ 51	\$ -	\$ 4	\$ 55

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

(ii) Financial assets by stage

The table below breaks down all financial assets by stage and asset class under IFRS 9.

(000s)	31 Dec 2023						31 Dec 2022	
	Gross carrying amount	Loss allowance	Carrying amount	Gross carrying amount	Loss allowance	Carrying amount		
Personal Loans								
Stage 1 - 12-month ECL	\$ 9,820	\$ 14	\$ 9,806	\$ 11,009	\$ 17	\$ 10,992		
Stage 2 - Lifetime ECL - not credit-impaired loans	329	14	315	118	-	118		
Stage 3 - Lifetime ECL - credit-impaired loans	-	-	-	4	4	-		
	\$ 10,149	\$ 28	\$ 10,121	\$ 11,131	\$ 21	\$ 11,110		
Residential Mortgages								
Stage 1 - 12-month ECL	\$ 792,192	\$ -	\$ 792,192	\$ 737,924	\$ 19	\$ 737,905		
Stage 2 - Lifetime ECL - not credit-impaired loans	1,001	-	1,001	313	-	313		
Stage 3 - Lifetime ECL - credit-impaired loans	624	-	624	883	-	883		
	\$ 793,817	\$ -	\$ 793,817	\$ 739,120	\$ 19	\$ 739,101		
Commercial Loans								
Stage 1 - 12-month ECL	\$ 32,373	\$ 79	\$ 32,294	\$ 37,822	\$ 15	\$ 37,807		
Stage 2 - Lifetime ECL - not credit-impaired loans	-	-	-	-	-	-		
Stage 3 - Lifetime ECL - credit-impaired loans	118	-	118	-	-	-		
	\$ 32,491	\$ 79	\$ 32,412	\$ 37,822	\$ 15	\$ 37,807		
Total	\$ 836,457	\$ 107	\$ 836,350	\$ 788,073	\$ 55	\$ 788,018		

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

Maximum exposure to credit risk on financial instruments subject to impairment

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

(000s)	31 Dec 2023				31 Dec 2022			
Days Overdue	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit- impaired loans	Stage 3 Lifetime ECL - credit- impaired loans	Total	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit- impaired loans	Stage 3 Lifetime ECL - credit- impaired loans	Total
Personal Loans								
0 to 29 days	\$ 9,820	\$ 197	\$ -	\$ 10,017	\$ 11,009	\$ 110	\$ -	\$ 11,119
30 to 89 days	-	132	-	132	-	8	-	8
90 days and greater	-	-	-	-	-	-	4	4
	\$ 9,820	\$ 329	\$ -	\$ 10,149	\$ 11,009	\$ 118	\$ 4	\$ 11,131
Residential Mortgages								
0 to 29 days	\$ 792,192	\$ -	\$ -	\$ 792,192	\$ 737,924	\$ 20	\$ -	\$ 737,944
30 to 89 days	-	1,001	-	1,001	-	293	-	293
90 days and greater	-	-	624	624	-	-	883	883
	\$ 792,192	\$ 1,001	\$ 624	\$ 793,817	\$ 737,924	\$ 313	\$ 883	\$ 739,120
Commercial Loans								
0 to 29 days	\$ 32,373	\$ -	\$ -	\$ 32,373	\$ 37,822	\$ -	\$ -	\$ 37,822
30 to 89 days	-	-	-	-	-	-	-	-
90 days and greater	-	-	118	118	-	-	-	-
	\$ 32,373	\$ -	\$ 118	\$ 32,491	\$ 37,822	\$ -	\$ -	\$ 37,822
Total	\$ 834,385	\$ 1,330	\$ 742	\$ 836,457	\$ 786,755	\$ 431	\$ 887	\$ 788,073

(iii) Collateral

Alterna Bank employs a range of policies and practices to mitigate credit risk, the most common of which is accepting collateral. A valuation of the collateral obtained is prepared as part of the loan origination process and reviewed periodically. The credit enhancements Alterna 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. The policies regarding obtaining collateral have not significantly changed during the reporting period and there have been no significant changes in the overall quality of the collateral held since the prior period. Alterna Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely Alterna Bank will take possession to mitigate potential credit losses. There are \$nil repossessions held at December 31, 2023 (December 31, 2022 - nil) with an appraisal value of \$nil (2022 - \$nil).

(iv) Loans with renegotiated terms

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

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

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. Alterna Bank uses derivatives such as interest rate swaps to manage interest rate risk.

Interest rate risk is managed in accordance with the Structural Risk Management Policy. This policy is reviewed and approved annually by the Board. Alterna 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, 2023, the results for these measures were 2.22% (2022 – 2.34%) and -0.82% (2022 – -1.77%) for short-term interest rate risk and long-term interest rate risk respectively. Alterna Bank was in compliance with the policy as at December 31, 2023.

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

(000s)							31-Dec-23	31-Dec-22
	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	\$ 3,327	\$ 5,005	\$ -	\$ -	\$ -	\$ -	\$ 8,332	\$ 15,217
Interest Rates	-	5.00%	-	-	-	-	3.00%	0.00%
Investments	\$ 66	\$ -	\$ 3,932	\$ 19,094	\$ 29,373	\$ -	\$ 52,465	\$ 55,541
Interest Rates	-	-	1.11%	0.98%	0.99%	-	0.99%	0.98%
Personal loans	\$ -	\$ 10,100	\$ 2	\$ 6	\$ 13	\$ -	\$ 10,121	\$ 11,110
Interest Rates	-	8.09%	10.79%	10.82%	11.39%	0.00%	8.10%	7.33%
Residential mortgage loans	\$ -	\$ 5,330	\$ 28,023	\$ 205,077	\$ 722,557	\$ 625	\$ 961,612	\$ 973,254
Interest Rates	-	6.35%	3.61%	3.12%	3.39%	4.49%	3.36%	3.09%
Commercial loans	\$ -	\$ 1,393	\$ 937	\$ 10,388	\$ 19,340	\$ 6,721	\$ 38,779	\$ 44,270
Interest Rates	-	8.35%	3.64%	3.85%	3.45%	3.00%	3.66%	3.40%
Other	\$ 34,478	\$ 5,166	\$ -	\$ -	\$ -	\$ -	\$ 39,644	\$ 48,129
TOTAL ASSETS	\$ 37,871	\$ 26,994	\$ 32,894	\$ 234,565	\$ 771,283	\$ 7,346	\$ 1,110,953	\$ 1,147,521
Deposits	\$ -	\$ 385,745	\$ 24,013	\$ 74,932	\$ 61,814	\$ -	\$ 546,504	\$ 576,603
Interest Rates	-	1.14%	4.61%	4.28%	4.68%	-	2.12%	2.02%
Mortgage securitization liabilities	\$ -	\$ -	\$ -	\$ 26,750	\$ 369,484	\$ -	\$ 396,234	\$ 343,275
Interest Rates	-	-	-	1.60%	2.33%	-	2.28%	1.36%
Other	\$ 82,532	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 82,532	\$ 147,584
Shareholders' equity	\$ 85,683	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 85,683	\$ 80,059
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 168,215	\$ 385,745	\$ 24,013	\$ 101,682	\$ 431,298	\$ -	\$ 1,110,953	\$ 1,147,521
MATCHING GAP	\$ (130,344)	\$ (358,751)	\$ 8,881	\$ 132,883	\$ 339,985	\$ 7,346	\$ -	\$ -

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

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

(000s)	31 Dec 2023	31 Dec 2022
EaR	(\$1,375)	(\$2,744)
EVEaR	(0.82%)	(1.77%)

(ii) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Alterna 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, 2023, the percentage of foreign currency denominated financial assets is within 90% to 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 January 2022, 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 Coverage Ratio (“LCR”). Management uses the LAR and associated metrics to assess liquidity adequacy. The 100% minimum LCR requirement was effective April 1, 2023. As at December 31, 2023 and 2022, the LCR minimum was met.

For the contractual maturities of assets and liabilities, please refer to the table under note 4(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 and interest, which are disclosed in note 18.

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

(000s)					31 Dec 2023	31 Dec 2022
	Less than 1 year	1 to 5 years	Over 5 years	Due on demand	Total	Total
Deposits	\$98,945	\$61,814	\$-	\$385,745	\$546,504	\$576,603
Mortgage securitization liabilities	26,750	369,484	-	-	\$396,234	343,275
	\$125,695	\$431,298	\$-	\$385,745	\$942,738	\$919,878

Alterna Bank has access to a \$30,500,000 credit facility with Central 1 (2022 – \$30,500,000). The credit facility is guaranteed by Alterna Bank’s parent company, Alterna Savings. There was \$nil outstanding balance against these facilities as at December 31, 2023 (2022 – \$nil).

Alterna Bank also has access to revolving credit facilities of \$25,000,000 with major Canadian banks (2022 – \$50,000,000) through its parent company Alterna Savings of which the balance outstanding was \$nil as at December 31, 2023 (2022 – \$nil). The facility is secured by insured mortgage collateral. During 2023, management evaluated its liquidity needs and determined a more appropriate size for its revolving credit facility would be \$25,000,000.

5. INVESTMENTS

(000s)	31 Dec 2023	31 Dec 2022
Debt instruments classified as FVOCI:		
Securities issued or guaranteed by Sovereigns ⁽¹⁾	\$49,555	\$52,730
Money market instruments	2,813	2,714
Term deposits	-	-
Equity instruments designated as FVOCI:		
Other investments	97	97
	\$52,465	\$55,541

⁽¹⁾ 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 2023 or 2022.

6. INTANGIBLE ASSETS

(000s)	Computer Software 2023	Computer Software 2022
Cost:		
Balance as at January 1	\$2,889	\$1,927
Additions	181	962
Balance as at December 31	3,070	2,889
Amortization and impairment:		
Balance as at January 1	1,875	1,732
Amortization	175	143
Balance as at December 31	2,050	1,875
Net book value:		
Balance as at January 1	1,014	195
Balance as at December 31	\$1,020	\$1,014

Total amortization charged to income in 2023 was \$175,000 (2022 – \$143,000) and is included in administration expenses on the statements of comprehensive income. All computer software assets have been acquired, not developed.

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

7. OTHER ASSETS

(000s)	31 Dec 2023	31 Dec 2022
Securitization receivables and deferred charges	\$15,141	13,835
Restricted cash ⁽¹⁾	13,733	\$15,607
Prepaid expenses	2,387	2,751
Accrued interest receivable	2,197	1,939
Other	-	1,055
	\$33,458	\$35,187

⁽¹⁾ Restricted cash is held as an unscheduled prepayment cash reserve, a requirement of Alterna Bank's participation in the NHA MBS program. The use of these funds is restricted to those allowed as provided for by the program.

8. DEPOSITS

(000s)	31 Dec 2023	31 Dec 2022
Demand deposits	\$315,861	\$349,689
Registered plans	127,056	138,638
Term deposits	103,587	88,276
	\$546,504	\$576,603

As at December 31, 2023, customers' deposits denominated in US Dollars amounted to US\$346,124 (December 31, 2022 – US\$285,474) with a carrying amount of \$457,291 (2022 – \$387,017).

9. MORTGAGE SECURITIZATION LIABILITIES

(000s)	31 Dec 2023	31 Dec 2022
Mortgage securitization liabilities ⁽¹⁾	\$396,234	\$343,275

⁽¹⁾ Of which \$43,454 (2022 – \$48,431) are measured at FVTPL.

As part of its program of liquidity, capital and interest rate risk management, Alterna Bank securitizes insured residential and commercial mortgage loans through the creation of MBS under the NHA MBS program and may in turn sell them to Canada Housing Trust (“CHT”) under the Canada Mortgage Bond (“CMB”) Program and/or to third party investors.

As all mortgages securitized by Alterna Bank are required to be fully insured prior to sale, they post minimal to no credit risk to Alterna Bank immediately before or any time after the securitization transaction.

The creation and sale of most insured MBS under the above program does not lead to the derecognition of the underlying mortgages as Alterna Bank has retained substantially all the risks and rewards of ownership, primarily pre-payment and interest rate risk. Where Alterna Bank retains substantially all the risks and rewards of the transferred loans, the loan portfolio remains on the consolidated balance sheets, the proceeds received are recognized as a mortgage securitization liability on the balance sheets. Certain insured multi-unit residential mortgages with no prepayment privileges do qualify for derecognition upon the transfer of the asset.

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 sheets as described in note 2(g)(iii). Refer to note 15 for income generated from securitization activity.

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

(000s)	31 Dec 2023	31 Dec 2022
Mortgages securitized:		
On-balance sheet (and included in loans)	\$778,245	\$771,114
Off-balance sheet	348,200	391,487

10. OTHER LIABILITIES

(000s)	31 Dec 2023	31 Dec 2022
Due to parent company	\$72,494	\$140,579
Accrued interest payable	5,413	2,871
Trade payables and accrued expenses	1,511	2,760
	\$79,418	\$146,210

11. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents the components of accumulated other comprehensive loss.

(000s)	31 Dec 2023	31 Dec 2022
<i>Investments in debt instruments measured at FVOCI</i>		
1 January accumulated other comprehensive loss	\$(3,475)	(\$869)
Other comprehensive (loss) income	1,057	(2,606)
31 December accumulated other comprehensive loss	(\$2,418)	(3,475)
<i>Cash flow hedges</i>		
1 January accumulated other comprehensive (loss) income	(\$6)	\$89
Other comprehensive (loss) income	6	(95)
31 December accumulated other comprehensive (loss) income	\$0	(\$6)
Total accumulated other comprehensive loss	(\$2,418)	(\$3,481)

12. 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, 2023, there were 5,700,001 (2022 – 5,700,001) common shares issued and outstanding: 5,700,000 (2022 – 5,700,000) with a stated value of \$10 per share and one common share with a stated value of \$1 per share. During 2023, Alterna Bank’s parent company subscribed to an additional \$nil common shares at \$10 per share. There are no issued shares that have not been fully paid.

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

13. INTEREST INCOME AND INTEREST EXPENSE

(000s)	31 Dec 2023	31 Dec 2022
Interest income:		
Residential mortgage loans	\$28,710	\$21,315
Commercial loans	1,931	1,494
Personal loans	849	566
Swaps	125	544
	\$31,615	\$23,919
Interest expense:		
Mortgage securitization cost of funds	\$12,700	\$8,877
Demand deposits	4,251	4,038
Registered plans	4,284	2,286
Term deposits	4,348	1,430
	\$25,583	\$16,631

\$Nil interest income was recorded on stage 3 loans for the years ended December 31, 2023 and 2022, as they were 100% provisioned.

14. INTEREST INCOME FROM INVESTMENTS

(000s)	31 Dec 2023	31 Dec 2022
Income on financial assets FVOCI	\$1,021	\$2,287
	\$1,021	\$2,287

15. SECURITIZATION INCOME

(000s)	31 Dec 2023	31 Dec 2022
Net change in fair value of loans and advances and mortgage securitization liabilities	\$2,857	(10,362)
Net gain (loss) on sale of mortgages	1,230	(398)
Servicing income	143	200
Net change in (loss) gain on bond forwards	(140)	9,405
	\$4,090	(\$1,155)

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

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

16. INCOME TAXES

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

(000s)	31 Dec 2023	31 Dec 2022
Loss allowance	\$28	\$7
Derivatives	-	(1,380)
Property and equipment	(185)	(66)
Other	13	68
	(\$144)	(\$1,371)

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

(000s)	31 Dec 2023		31 Dec 2022	
	Amount	Percent	Amount	Percent
Expected tax provision at combined federal and provincial rates	\$1,636	27%	\$1,124	27%
Other - net	(23)	0%	12	1%
	\$1,613	27%	\$1,136	28%

The components of income tax expense for the years ended December 31, 2023, and 2022 are as follows:

(000s)	31 Dec 2023	31 Dec 2022
	Amount	Amount
Current tax		
Current income tax recovery	\$2,867	(\$313)
Deferred income tax expense		
Relating to the origination and reversal of timing differences	(1,254)	1,449
Income tax expense reported in the statements of income	\$1,613	\$1,136

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

(000s)	31 Dec 2023	31 Dec 2022
Change in unrealized gains and losses on FVOCI financial assets	\$381	(\$939)
Change in gains (losses) on derivatives designated as cash flow hedges	2	(35)
	\$383	(\$974)

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

(000s)	31 Dec 2023	31 Dec 2022
Current income tax recovery	\$381	(\$939)
Deferred income tax recovery	2	(35)
	\$383	(\$974)

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

17. 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 the loss allowance, using the valuation methods and assumptions described below.

(000s)	31 Dec 2023		31 Dec 2022	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
FVOCI:				
Investments	\$52,465	\$52,465	\$55,541	\$55,541
FVTPL:				
Derivative financial instruments				
- purchased options	-	-	3	3
- interest rate swaps	-	-	3,096	3,096
- bond forwards	5,166	5,166	5,218	5,218
Loans and advances				
- residential mortgage loans	167,795	167,795	234,153	234,153
- commercial loans	6,367	6,367	6,463	6,463
Amortized cost:				
Cash and cash equivalents	8,332	8,332	15,217	15,217
Loans and advances				
- personal loans	10,149	10,151	11,131	11,131
- residential mortgage loans	793,817	764,815	739,120	710,709
- commercial loans	32,491	30,978	37,822	36,859
TOTAL ASSETS	\$1,076,582	\$1,046,069	\$1,107,764	\$1,078,390
Financial liabilities:				
Other liabilities:				
Deposits				
- demand deposits	\$315,861	\$315,861	\$349,689	\$349,689
- term deposits	103,587	103,576	88,276	87,180
- registered plans	127,056	126,897	138,638	137,957
Mortgage securitization liabilities	352,780	351,031	294,844	291,629
FVTPL:				
Mortgage securitization liabilities	43,454	43,454	48,431	48,431
Derivative financial instruments				
- embedded options	-	-	3	3
TOTAL LIABILITIES	\$942,738	\$940,819	\$919,881	\$914,889

Management has assessed that cash and cash equivalents, trade receivables, trade payables, other current liabilities and borrowings 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:

d

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

(ii) Alterna 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

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

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, 2023, 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, 2023, Alterna Bank assessed these risks to be insignificant.

(iii) Purchased and embedded options are measured similarly to the interest rate swaps. However, as these contracts are not collateralized, 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, 2023, Alterna Bank assessed these risks to be insignificant.

(iii) Personal loans, residential mortgage loans, commercial loans, deposits and mortgage securitization liabilities - at discounted cash flows using prevailing interest rates of instruments with similar remaining terms.

FAIR VALUE HIERARCHY

The following tables show the hierarchical classification of financial assets and financial liabilities measured or disclosed at fair value as at December 31, 2023 and 2022:

31 Dec 2023 (000s)	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Financial investments FVOCI	\$-	\$52,465	\$-	\$52,465
Derivative financial instruments				
- bond forwards	-	5,166	-	5,166
Loans and advances				
- residential mortgage loans	-	167,795	-	167,795
- commercial loans	-	6,367	-	6,367
Assets for which fair values are disclosed:				
Loans and advances				
- personal loans	-	10,151	-	10,151
- residential mortgage loans	-	764,815	-	764,815
- commercial loans	-	30,978	-	30,978
Liabilities measured at fair value:				
Mortgage securitization liabilities	-	43,454	-	43,454
Liabilities for which fair values are disclosed:				
Deposits				
- demand deposits	-	315,861	-	315,861
- term deposits	-	103,576	-	103,576
- registered plans	-	126,897	-	126,897
Mortgage securitization liabilities	-	351,031	-	351,031

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

31 Dec 2022 (000s)	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Financial investments FVOCI	\$-	\$55,541	\$-	\$55,541
Financial investments FVTPL				
Derivative financial instruments	-	3	-	3
- purchased options	-	3,096	-	3,096
- interest rate swaps	-	5,218	-	5,218
Loans and advances				
- residential mortgage loans	-	234,153	-	234,153
- commercial loans	-	6,463	-	6,463
Assets for which fair values are disclosed:				
Loans and advances				
- personal loans	-	11,131	-	11,131
- residential mortgage loans	-	710,709	-	710,709
- commercial loans	-	36,859	-	36,859
Liabilities measured at fair value:				
Mortgage securitization liabilities	-	48,431	-	48,431
Derivative financial instruments				
- embedded options	-	3	-	3
- bond forwards				
Liabilities for which fair values are disclosed:				
Deposits				
- demand deposits	-	349,689	-	349,689
- term deposits	-	87,180	-	87,180
- registered plans	-	137,957	-	137,957
Mortgage securitization liabilities	-	291,629	-	\$291,629

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2023 and 2022.

18. 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, 2023 and 2022:

(000s)	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 ^{(1) (2)}	\$-	\$-	\$-	\$-	\$-
Bond forwards ⁽²⁾	95,850	-	95,850	5,166	-
Other derivatives					
Index-linked call options ⁽²⁾	-	-	-	-	-
	\$95,850	\$-	\$95,850	\$5,166	\$-

⁽¹⁾ Of which \$nil are designated as cash flow hedges, with a notional amount of \$nil.

⁽²⁾ Derivatives are held in a back-to back arrangement with the parent, Alterna Savings.

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

(000s)	31 Dec 2022				
	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 ^{(1) (2)}	\$-	\$40,000	\$40,000	\$3,096	\$-
Bond forwards ⁽²⁾	141,450	-	141,450	5,218	-
Other derivatives					
Index-linked call options ⁽²⁾	30	-	30	3	3
	<u>\$141,480</u>	<u>\$40,000</u>	<u>\$181,480</u>	<u>\$8,317</u>	<u>\$3</u>

⁽¹⁾ Of which \$nil are designated as cash flow hedges, with a notional amount of \$nil.

⁽²⁾ Derivatives are held in a back-to back arrangement with the parent, Alterna Savings.

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

Swaps

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

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

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

Index-linked call options

Alterna Bank has issued \$nil of indexed term deposits to its clients as at December 31, 2023 (2022 – \$30,000). 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 IFRS 9 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:

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

31 Dec 2023			
(000s)	Replacement Cost	Credit Equivalent Amount	Risk-Weighted Amount
Bond forwards	\$5,166	\$7,592	\$1,518
Purchased options	-	-	-
Swaps	-	-	-
	\$5,166	\$7,592	\$1,518
Impact of master netting agreements	-	-	-
	\$5,166	\$7,592	\$1,518

31 Dec 2022			
(000s)	Replacement Cost	Credit Equivalent Amount	Risk-Weighted Amount
Bond forwards	\$5,218	\$8,823	\$1,765
Purchased options	3	6	1
Swaps	3,096	4,908	982
	\$8,317	\$13,737	\$2,748
Impact of master netting agreements	-	(298)	(60)
	\$8,317	\$13,439	\$2,688

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.

19. CAPITAL MANAGEMENT

OSFI has mandated that all federally regulated deposit-taking institutions (DTIs) meet minimum risk-based capital ratios in accordance with OSFI's Capital Adequacy Requirements (CAR) Guideline: those being a CET1 ratio of 7.0%, a Tier 1 Capital Ratio of 8.5% and a Total Capital Ratio of 10.5%. 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 loss allowance. 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.

Under OSFI's Leverage Requirements Guideline, federally regulated DTIs are also expected to maintain a Basel III leverage ratio that always meets or exceeds 3%. The leverage ratio is defined as the Tier 1 capital divided by unweighted on-balance sheet assets and off-balance sheet commitments, derivatives, and securities financing transactions.

In April 2023, OSFI's revised capital, leverage, liquidity and disclosure rules took effect which incorporate the final Basel III banking reforms. The revised rules also include the Small and Medium-Sized Deposit Taking institutions (SMSBs) Capital and Liquidity Requirements Guidelines, as well as separate Pillar 3 Disclosure Requirements for SMSBs.

Alterna Bank has complied with all regulatory capital and leverage requirements throughout the year ended December 31, 2023. The regulatory capital ratios are detailed below.

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

	31 Dec 2023	31 Dec 2022
CET1 capital (000s)	\$83,399	\$79,047
Tier 1 capital (000s)	\$83,399	\$79,047
Tier 2 capital (000s)	\$107	\$46
Total capital (000s)	\$83,506	\$79,093
Total risk-weighted assets (000s)	\$163,666	\$142,855
CET1 capital ratio	50.96%	55.33%
Tier 1 capital ratio	50.96%	55.33%
Total capital ratio	51.02%	55.37%
Leverage ratio	7.48%	6.84%

⁽¹⁾ 2023 regulatory ratios are based on the requirements of the Revised Basel III Reforms as determined in accordance with OSFI's SMSB Capital and Liquidity Requirements Guideline. Prior year ratios have not been restated.

20. COMMITMENTS AND CONTINGENCIES

a) CREDIT INSTRUMENTS

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

(000s)	31 Dec 2023	31 Dec 2022
Residential mortgage loans	\$-	\$1,297
Lines of credit unfunded	29,870	29,181

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, 2023 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.

21. NOTES TO STATEMENTS OF CASH FLOWS

a) COMPONENTS OF CASH AND CASH EQUIVALENTS

(000s)	31 Dec 2023	31 Dec 2022
Deposits with other financial institutions	\$3,282	\$15,211
Cash on hand	52	6
Marketable securities	4,998	-
	\$8,332	\$15,217

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

22. 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, and its related entities.

Alterna Bank has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business. 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 could be distributed amounted to \$51,496,000 as at December 31, 2023 (2022 - \$45,768,000).

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 Alterna 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 \$119,000 of short-term employee benefits (2022 - \$119,000).

During 2023 and 2022, KMP were not directly compensated by Alterna Bank as they are employees of the parent, Alterna Savings.

(ii) Loans to KMP

(000s)	31 Dec 2023	31 Dec 2022
(1) Aggregate value of loans outstanding as at balance sheets date	\$287	\$429
(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)	-	-
Net balance available	\$287	\$429
Aggregate value of loans disbursed during the year:		
Residential mortgages	\$297	\$-
Total	\$297	\$-

(iii) Deposits from KMP

(000s)	31 Dec 2023	31 Dec 2022
Total value of demand, term and registered plans deposits from KMP	\$396	\$988
Total amount of interest paid on deposits to KMP	8	11

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

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 2023 was \$2,626,000 (2022 – \$2,349,000) and is included under salaries and benefits and administration expenses. Transactions are recorded in accordance with the agreement negotiated between both entities.

At the end of the year, Alterna Bank owed \$72,495,000 to Alterna Savings (2022 – \$140,561,000).

c) DEPOSITS

As at December 31, 2023, deposits included demand deposits issued to Alterna Savings in the amount of \$107,825,000 (2022 – \$22,477,000) The interest incurred on these deposits during the year totalled \$175,000 (2022 – \$52,000).

d) LOANS

As at December 31, 2023, loans included mortgages purchased from Alterna Savings in the amount of \$12,577,000 (2022– \$14,989,000). During the year, \$nil (2022 – \$nil) of mortgages were sold to Alterna Savings and \$52,973,000 (2022 – \$59,988,000) of loans were purchased from Alterna Savings.

e) MORTGAGE SECURITIZATION LIABILITIES

As at December 31, 2023, mortgage securitization liabilities included MBS sold to Alterna Savings in the amount of \$177,584,000 (2022 – \$195,852,000). During the year, \$nil (2022 – \$171,892,000) MBS were sold to Alterna Savings and \$nil (2022 - \$nil) were purchased from Alterna Savings.

CS ALTERNA BANK
Notes to the Financial Statements
December 31, 2023

23. 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, 2023 and 2022.

(000s)	As at Dec 31 2023			As at Dec 31 2022		
	Within 1 Year	After 1 year	Total	Within 1 Year	After 1 year	Total
Assets						
Cash and cash equivalents	\$ 8,332	\$ -	\$ 8,332	\$ 15,217	\$ -	\$ 15,217
Investments	23,092	29,373	52,465	16,900	38,641	55,541
Personal loans	10,136	13	10,149	11,123	8	11,131
Residential mortgage loans	238,430	723,182	961,612	230,617	742,656	973,273
Commercial loans	12,797	26,061	38,858	10,632	33,653	44,285
Loan allowance	(107)	-	(107)	(55)	-	(55)
Intangible assets	-	1,020	1,020	-	1,014	1,014
Derivative financial instruments	5,166	-	5,166	5,221	3,096	8,317
Income tax receivable	-	-	-	3,611	-	3,611
Deferred income tax asset	-	-	-	-	-	-
Other assets	33,458	-	33,458	35,187	-	35,187
Total assets	\$ 331,304	\$ 779,649	\$ 1,110,953	\$ 328,453	\$ 819,068	\$ 1,147,521
Liabilities						
Demand deposits	\$ 315,862	\$ -	\$ 315,862	\$ 349,689	\$ -	\$ 349,689
Term deposits	63,913	39,673	103,586	64,339	23,937	88,276
Registered plans	104,915	22,141	127,056	124,679	13,959	138,638
Mortgage securitization liabilities	26,750	369,484	396,234	22,312	320,963	343,275
Derivative financial instruments	-	-	-	3	-	3
Income tax payable	2,970	-	2,970	-	-	-
Deferred tax liability	-	144	144	-	1,371	1,371
Other liabilities	79,418	-	79,418	146,210	-	146,210
Total liabilities	\$ 593,828	\$ 431,442	\$ 1,025,270	\$ 707,232	\$ 360,230	\$ 1,067,462
Net	\$ (262,524)	\$ 348,207	\$ 85,683	\$ (378,779)	\$ 458,838	\$ 80,059