

*Consolidated Financial Statements of*

**ALTERNA SAVINGS**

**December 31, 2021**

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## Independent auditor's report

To the Members of Alterna Savings and Credit Union Limited

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### Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Alterna Savings and Credit Union Limited and its subsidiary (together, Alterna Savings) as at December 31, 2021 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### What we have audited

Alterna Savings' consolidated financial statements comprise:

- the consolidated balance sheet as at December 31, 2021;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in members' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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### 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 consolidated 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 Alterna Savings in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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



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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing Alterna Savings' 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 Alterna Savings or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Alterna Savings' financial reporting process.

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## **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Alterna Savings' 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 Alterna Savings' 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 consolidated 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 Alterna Savings to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Alterna Savings to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Ottawa, Ontario  
March 10, 2022

**ALTERNA SAVINGS**  
**Consolidated Balance Sheets** (in thousands of dollars)  
**December 31, 2021**

As at	Note	31 December 2021	31 December 2020
<b>ASSETS</b>			
Cash and cash equivalents	27	\$ 932,056	\$ 1,352,901
Investments	6	727,809	457,688
Loans and advances	4, 5	4,857,908	4,707,716
Property and equipment	7	35,617	38,319
Intangible assets	8	14,547	14,155
Derivative financial instruments	23	6,473	7,721
Income tax receivable		15,216	-
Deferred income tax asset	21	61	4,296
Other assets	9	111,879	120,095
		\$ 6,701,566	\$ 6,702,891
<b>LIABILITIES AND MEMBERS' EQUITY</b>			
Liabilities:			
Deposits	10	\$ 5,201,089	\$ 5,231,712
Borrowings	11	255,884	141,494
Mortgage securitization liabilities	12	742,732	792,607
Derivative financial instruments	23	6,046	22,079
Income tax payable		-	7,670
Other liabilities	13	59,206	66,942
Membership shares	16	2,081	2,110
		6,267,038	6,264,614
Members' equity:			
Special shares	16	186,599	186,472
Contributed surplus		59,203	59,203
Retained earnings		198,214	190,147
Accumulated other comprehensive (loss) income	15	(9,488)	2,455
		434,528	438,277
		\$ 6,701,566	\$ 6,702,891

On behalf of the Board:



\_\_\_\_\_  
 Maria Barrados  
 Director



\_\_\_\_\_  
 Richard J. Neville, CPA, CA  
 Director

(See accompanying notes to the consolidated financial statements)

**ALTERNA SAVINGS**  
**Consolidated Statements of Income** (in thousands of dollars)  
**December 31, 2021**

For the years ended	Note	<b>31 December 2021</b>	<b>31 December 2020</b>
Interest income	17	\$ 143,783	\$ 167,202
Investment income	18	13,819	24,985
		<b>157,602</b>	192,187
Interest expense	17	62,352	86,750
Net interest income		<b>95,250</b>	105,437
Loan (recoveries) costs		(3,935)	7,657
Net interest income after loan (recoveries) costs		<b>99,185</b>	97,780
Commissions		10,796	8,960
Service charges		7,404	6,353
Foreign exchange		2,911	3,024
Net gains on derivative financial instruments		1,616	124
Securitization (loss) income	19	(15,528)	12,753
Other		1,502	896
Other income		<b>8,701</b>	32,110
Net interest and other income		<b>107,886</b>	129,890
Salaries and benefits		43,616	46,619
Administration		24,895	25,182
Data processing		10,364	9,831
Occupancy		9,706	11,677
Marketing and community relations		2,079	2,782
Operating expenses		<b>90,660</b>	96,091
Income before income taxes		<b>17,226</b>	33,799
Provision for income taxes	21	3,683	6,385
Net income		<b>\$ 13,543</b>	\$ 27,414

(See accompanying notes to the consolidated financial statements)

## ALTERNA SAVINGS

### Consolidated Statements of Comprehensive Income (in thousands of dollars)

December 31, 2021

For the years ended	31 December 2021	31 December 2020
Net income	\$ 13,543	\$ 27,414
Other comprehensive (loss) income		
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) gains on debt instruments measured at fair value through other comprehensive (loss) income <sup>(1)</sup>	(10,879)	2,373
<u>Cash flow hedges:</u>		
Changes arising during the year <sup>(2)</sup>	(1,227)	1,539
Add: Reclassification adjustments for gains included in the income statement <sup>(3)</sup>	149	133
Net (loss) gain on cash flow hedges	(1,078)	1,672
Net other comprehensive (loss) income to be reclassified to income in subsequent periods	(11,957)	4,045
Other comprehensive income (loss) not to be reclassified to income in subsequent periods:		
Defined benefit plan - actuarial gains (losses) <sup>(4)</sup>	14	(30)
Net other comprehensive income (loss) not to be reclassified to income in subsequent periods	14	(30)
Other comprehensive (loss) income	(11,943)	4,015
Comprehensive income	\$ 1,600	\$ 31,429

<sup>(1)</sup> Net of income tax recovery of \$2,584 (2020 - expense of \$444).

<sup>(2)</sup> Net of income tax recovery of \$302 (2020 - expense of \$382).

<sup>(3)</sup> Net of income tax expense of \$34 (2020 - \$30).

<sup>(4)</sup> Net of income tax expense of \$3 (2020 - \$2).

(See accompanying notes to the consolidated financial statements)

**ALTERNA SAVINGS****Consolidated Statements of Changes in Members' Equity** (in thousands of dollars)**December 31, 2021**

For the years ended	31 December 2021	31 December 2020
Special shares:		
Balance, beginning of year	\$ 186,472	\$ 187,233
Net shares issued	127	(761)
Balance, end of year	186,599	186,472
Contributed surplus:		
Balance, beginning of year	59,203	37,739
Arising on business combination	-	21,464
Balance, end of year	59,203	59,203
Retained earnings:		
Balance, beginning of year	190,147	168,207
Net income	13,543	27,414
Dividend on special shares	(5,476)	(5,474)
Balance, end of year	198,214	190,147
Accumulated other comprehensive (loss) income, net of tax:		
Balance, beginning of year	2,455	(1,560)
Other comprehensive (loss) income	(11,943)	4,015
Balance, end of year	(9,488)	2,455
Members' equity	\$ 434,528	\$ 438,277

(See accompanying notes to the consolidated financial statements)

# ALTERNA SAVINGS

## Consolidated Statements of Cash Flows (in thousands of dollars)

December 31, 2021

For the years ended	31 December 2021	31 December 2020
Operating activities:		
Net income	\$ 13,543	\$ 27,414
Proceeds from the securitization of mortgages	215,853	696,596
Payment of mortgage securitization liabilities	(269,371)	(678,916)
(Deduct) add non-cash items:		
Provision for credit (recoveries) losses	(4,457)	7,250
Depreciation and amortization of		
Property and equipment	5,920	6,195
Intangible assets	1,528	1,415
Deferred charges	9,065	8,824
(Gain) loss on		
Disposal of property and equipment	(18)	30
Sale of investments	(354)	-
Gain on sale and securitization of loans	(214)	(22,417)
(Increase) decrease in assets		
Fair value of investments	(2,134)	(851)
Fair value of loans held for securitization	(8,756)	(33,602)
Interest receivable	1,267	2,507
Deferred income taxes	4,235	(4,296)
Loans	(142,151)	362,925
Assets relating to derivative financial instruments	183	914
(Decrease) increase in liabilities		
Interest payable	(7,421)	(2,583)
Deposits	(30,623)	629,914
Liabilities relating to derivative financial instruments	(16,033)	17,984
Deferred income taxes	-	(338)
Non-cash net assets acquired through business combinations	-	(29,684)
Other items, net	(11,632)	(493)
Cash (used in) provided by operating activities	(241,570)	988,788
Investing activities:		
Proceeds from maturity and sale of investments	3,423,915	394,458
Purchase of investments	(3,703,936)	(424,028)
Proceeds from sale of property and equipment	-	361
Acquisition of property and equipment	(3,200)	(6,183)
Acquisition of intangible assets	(1,920)	(4,430)
Cash acquired through business combinations	-	51,148
Cash (used in) provided by investing activities	(285,141)	11,326
Financing activities:		
Net (decrease) increase in		
Membership shares	(29)	306
Special shares	127	(761)
Borrowings	114,390	(162,177)
Dividend on special shares	(5,476)	(5,474)
Principal payments on lease liabilities	(3,146)	(3,266)
Cash provided by (used in) financing activities	105,866	(171,372)
Net (decrease) increase in cash and cash equivalents during the year	(420,845)	828,742
Cash and cash equivalents, beginning of year	1,352,901	524,159
Cash and cash equivalents, end of year	\$ 932,056	\$ 1,352,901
Supplemental information:		
Interest paid	\$ 69,773	\$ 89,333
Interest received	\$ 142,516	\$ 164,695
Dividend received	\$ 584	\$ 1,076
/ Income taxes paid	\$ 10,992	\$ 718

(See accompanying notes to the consolidated financial statements)

# ALTERNA SAVINGS

## Notes to the Consolidated Financial Statements

### December 31, 2021

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#### 1. CORPORATE INFORMATION

Alterna Savings is a credit union incorporated and domiciled in Ontario, Canada under *The Credit Unions and Caisses Populaires Act* (Ontario) (the “Act”) as Alterna Savings and Credit Union Limited and is a member of Central 1 Credit Union (“Central 1”). Alterna Savings is regulated by and its qualifying member deposits are insured by the Financial Services Regulatory Authority (“FSRA”).

The registered office address of Alterna Savings is 319 McRae Avenue, Ottawa, Ontario, K1Z 0B9. The nature of Alterna Savings’ operations and principal activities are the provision of deposit taking facilities and loan facilities to the members of the credit union in Ontario and Quebec.

The consolidated financial statements incorporate on a fully consolidated basis the financial statements of Alterna Savings (the parent entity) and its wholly owned subsidiary CS Alterna Bank (“Alterna Bank”). The consolidated financial statements for the year ended December 31, 2021 were authorized for issue in accordance with a resolution of the Board of Directors on March 10, 2022.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### STATEMENT OF COMPLIANCE

The consolidated financial statements of Alterna Savings have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

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

Financial assets and liabilities are offset, with the net amount reported in the consolidated 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 consolidated financial statements have been prepared on a historical cost basis, except for investments at fair value through other comprehensive income (“FVOCI”), derivative financial instruments, financial assets and financial liabilities held at fair value through profit or loss (“FVTPL”), and plan assets of defined benefit pension plans which have been measured at fair value.

The significant accounting policies are as follows:

##### a) CHANGES IN ACCOUNTING POLICIES

###### i) Interest Rate Benchmark (“IBOR”) Reform

Phase 1 and Phase 2 Amendments were issued to IFRS 9, IAS 39, IFRS 7, *Financial Instruments* and IFRS 16, *Leases* to help entities in applying IFRS when changes are made to contract cash flows or hedging relationships due to the IBOR reform. Phase 1 became effective January 1, 2020 and Phase 2 became effective January 1, 2021 for Alterna Savings. Phase 1 modified hedge accounting requirements, allowing Alterna Savings to assume that the interest rate benchmark on which cash flows of the hedged item and hedging instrument are based are not altered as a result of the IBOR reform, therefore allowing hedge accounting to continue. The amendments require specific disclosures for the affected hedging relationships. Phase 2 Amendments address issues that arise from replacing an existing interest rate benchmark with the alternative benchmark and introduces additional disclosure requirements. It provides two reliefs: If qualifying criteria are met, hedging relationships that are directly impacted by the reform can continue hedge accounting on transition to the alternative benchmark. For modifications to financial instruments resulting from the reform which are transacted on an economically equivalent basis, entities can reflect the benchmark change prospectively in the effective interest rate rather than as an immediate gain or loss.

**ALTERNA SAVINGS**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2021**

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Alterna Savings designates interest rate swaps linked to Canadian Dealer Offered Rate (“CDOR”) in cash flow hedge accounting relationships that have not formally announced plans for cessation. Alterna Savings will continue to monitor the changes of IBOR reform to determine if the amendments will become applicable at future reporting dates.

**ii) IFRS 16, Leases amendment in light of COVID-19**

On May 28, 2020, an amendment to IFRS 16 was published that provides an option practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On March 31, 2021, this was extended by one year to June 30, 2022. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payment in the period(s) in which the event or condition that triggers the reduced payment occurs. The practical expedient only applies to rent concessions for lessees (but not lessors) occurring as a direct consequence of the COVID-19 pandemic. Alterna Savings had no rent concessions as a lessee occurring as a direct consequence of the COVID-19 pandemic, therefore, this amendment had no impact.

**b) BASIS OF CONSOLIDATION**

The consolidated financial statements include the accounts and financial performance of Alterna Bank. All significant intercompany balances and transactions have been eliminated on consolidation.

**c) BUSINESS COMBINATIONS AND GOODWILL**

Business combinations are accounted for using the acquisition method of accounting. For every business combination, an acquirer is identified, which is the entity that obtains control of the other entity. The effective date of the business combination is the date the acquirer gains control of the acquired entity. The identifiable assets (including previously unrecognized intangible assets) and identifiable liabilities (including contingent liabilities but excluding future restructuring costs) of the acquired entity are measured at fair value. The excess of the consideration transferred over the fair values of the identifiable net assets is recognized as goodwill; any shortfall is recognized as a bargain purchase option and recognized in the consolidated statements of income.

Acquisition-related costs are expensed as incurred and are included in operating expenses.

**d) CASH AND CASH EQUIVALENTS**

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

**e) DETERMINATION OF FAIR VALUE**

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

# ALTERNA SAVINGS

## Notes to the Consolidated Financial Statements

### December 31, 2021

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#### f) FINANCIAL INSTRUMENTS

##### i) Initial recognition and measurement

Financial instruments are recognized when Alterna Savings becomes party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognized on the date when Alterna Savings 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 FVTPL). For financial instruments carried at FVTPL, 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 Savings 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.

##### ii) Classification and Measurement

###### **Financial assets**

Alterna Savings 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.

## **ALTERNA SAVINGS**

### **Notes to the Consolidated Financial Statements**

#### **December 31, 2021**

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On initial recognition of an equity instrument that is not held for trading, Alterna Savings 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 Savings’ right to receive payments is established. See note 6 for details on which investments Alterna Savings has taken the election on.

All other financial assets are classified as measured at FVTPL. In addition, on initial recognition, Alterna Savings 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 Savings has not made such election.

The classification for debt and equity instruments are described below:

- Business model assessment: the business model assessment reflects how Alterna Savings 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 Savings assesses the business model at a portfolio level and uses judgment which is supported by objective evidence including:
  - 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 Savings assesses whether the financial asset’s cash flows represent solely payment of principal and interest (the ‘SPPI’ test). In making this assessment, Alterna Savings 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 Savings changes its business model for managing financial assets. Such reclassifications are expected to be very rare and infrequent.

#### **Financial Liabilities**

Financial liabilities are classified at amortized cost or FVTPL. Alterna Savings 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 22.

**ALTERNA SAVINGS**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2021**

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**g) IMPAIRMENT OF FINANCIAL ASSETS**

Alterna Savings 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 measured at FVOCI.

Alterna Savings 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
- Financial assets at amortized cost and FVOCI on which credit risk has not increased significantly since their initial recognition.

All debt instruments at amortized cost 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 at amortized cost are 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 also considers financial assets and debt instruments to have a low credit risk when its creditworthiness is judged to be ‘investment grade’, which Alterna 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 (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that Alterna Savings 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 Savings if the commitment is drawn down and the cash flows that Alterna Savings expects to receive.

See further discussion in note 5.

**ii) Credit-impaired financial assets**

At each reporting date, Alterna Savings 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.

## ALTERNA SAVINGS

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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 Savings on terms that Alterna Savings would not consider otherwise; or
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

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 Savings, the loan and any associated allowance is written off. Subsequent recoveries, if any, are credited to the allowance and recorded in the consolidated 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 account accordingly. Such reversal is recognized in the consolidated 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 the purpose 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 recorded in the consolidated statements of income.

**Loan costs** – Loan costs include the loss allowance, 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 the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; or
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

#### h) MODIFICATIONS

##### i) Financial assets

If the terms of a financial asset are modified, Alterna Savings 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.

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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 Savings 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. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with the loss allowance. In other cases, it is presented as interest income.

#### **ii) Financial liabilities**

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

### **i) 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 Savings has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement;
- and either:
  - Alterna Savings has transferred substantially all the risks and rewards of the asset, or
  - Alterna Savings has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

#### **ii) Financial liabilities**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statements of income.

#### **iii) Mortgage securitization**

Alterna Savings securitizes insured residential and commercial mortgage loans through the creation of mortgage-backed securities (“MBS”) under the National Housing Act (“NHA”) MBS program. Alterna Savings 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 consolidated 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 consolidated balance sheets under other assets. Gains or losses are reported in other income on the consolidated statements of income. On certain transactions Alterna Savings retains substantially all the risks and rewards of the transferred loans. As a result, these loans remain on the consolidated balance sheets and the proceeds received are recognized as a mortgage securitization liability in the consolidated balance sheets.

### **j) DERIVATIVES AND HEDGING**

Alterna Savings has elected to continue to apply the hedge accounting requirements of International Accounting Standards 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 consolidated balance sheets.

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

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#### **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 consolidated statements of income. The only embedded derivatives are the options embedded in Alterna Savings' indexed term deposits offered to members (note 23(b)) with respect to which the host deposits are carried at amortized cost.

#### **ii) Hedge accounting**

Alterna Savings uses derivative financial instruments such as swaps in its management of interest rate exposure and foreign currency forward agreements to manage its foreign exchange risk. Derivative financial instruments are not used for trading or speculative purposes but rather as economic hedges, some of which qualify for hedge accounting. Alterna Savings 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 Savings 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 of occurring, the OCI balance is then recognized in the consolidated statements of income.

#### **iv) Fair value hedges**

Alterna Savings designates fair value hedges as part of risk management strategies that use derivatives to mitigate its exposure to the changes in a fixed interest rate instrument's fair value caused by changes in interest rates.

In a fair value hedging relationship, the carrying value of the hedged item is adjusted for changes in fair value attributable to the hedged risk and recognized in income. Changes in fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in the fair value of the hedging derivative, which are also recognized in income. 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 the carrying value of the hedged item is no longer adjusted and the cumulative fair value adjustments to the carrying value of the hedged items are recognized to income over the remaining term of the hedged item.

#### **k) FOREIGN CURRENCY**

The consolidated financial statements are presented in Canadian dollars, which is Alterna Savings' functional and reporting currency.

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Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the rate of exchange prevailing at the consolidated balance sheet dates; 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.

**l) PROPERTY AND EQUIPMENT**

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. The land is not depreciated. Depreciation is generally recognized using the straight-line method over the estimated useful lives of the assets. The range of estimated useful lives of the assets is as follows:

Buildings	10 to 35 years
Furniture and equipment	5 to 10 years
Computer hardware	3 to 7 years
Leasehold improvements	Term of the lease

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

Property and equipment are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment charge is recorded to the extent the recoverable amount, which is the higher of fair value less costs to sell and value in use, is less than its carrying amount. Value in use is the present value of the future cash flows expected to be derived from the asset. After the recognition of impairment of an asset, the depreciation charge is adjusted in future periods to reflect the asset's revised carrying amount. If impairment is later reversed, the depreciation charge is adjusted prospectively.

Property and equipment are derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in other income in the consolidated statements of income in the year the asset is derecognized.

**m) INTANGIBLE ASSETS**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. 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 Savings' computer software has been identified as having a finite life and is amortized over 2 to 15 years.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Goodwill arising from business combinations has been identified as having an indefinite life.

Investment tax credits related to the acquisition of computer software are accounted for using the cost reduction approach and are deducted from the cost of the related asset. Investment tax credits are recorded when Alterna Savings has made the qualifying expenditures and there is reasonable assurance that the credits will be realized.

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**n) EMPLOYEE BENEFIT PLANS**

Alterna Savings maintains four pension plans for current employees and retirees, and two post-retirement benefits programs, which provide certain post-employment healthcare benefits. The pension plans consist of two Defined Benefit Plans (“DB”), a Supplementary Retirement Income Plan (“SRIP”), and a Defined Contribution Plan (“DC”).

Full actuarial valuations of Alterna Savings’ DB, SRIP and the post-retirement benefits programs are carried out not less than every three years. These valuations are updated at each reporting date of December 31, by qualified independent actuaries.

**i) Defined Benefit Pension Plan**

For the DB pension plan, the SRIP and the post-retirement benefits programs, plan assets are valued at fair values. Benefit costs and accrued benefits are determined based upon actuarial valuations using the projected benefit method prorated on service and management’s best estimates. The interest income on plan assets is based on the fair value of plan assets.

The recognition of actuarial gains and losses is applied through immediate recognition in equity (i.e., OCI), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

**ii) Defined Contribution Pension Plan**

For the DC pension plan, annual pension expense is equal to Alterna Savings’ contribution to the plan. The assets of Alterna Savings’ DC pension plan are held in independently administered funds.

**o) 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 consolidated balance sheet dates.

**ii) Deferred income tax**

Deferred income tax is provided on temporary differences at the consolidated balance sheet dates between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences, except:

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

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

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

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The carrying amount of deferred income tax assets is reviewed at each consolidated balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each consolidated balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the consolidated 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 consolidated statements of income except for the tax effects of dividends that are recorded in the consolidated 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.

#### **p) LEASING**

The determination of whether an arrangement is a lease, or it contains a lease, is based on if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, Alterna Savings assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly. If the supplier has a substantive substitution right, then the asset is not identified. Substitution rights are substantive if the supplier either has the practical ability to substitute an alternative asset through the period of use or it benefits economically from substituting the asset;
- Alterna Savings has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- Alterna Savings has the right to direct the use of the asset.

Alterna Savings recognizes right-of-use assets and lease liabilities at the lease commencement date. The right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liabilities adjusted for any lease payments made at or before commencement date, plus any initial direct costs incurred, less lease incentives received. The right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use assets or the end of the lease terms. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liabilities.

A lease liability is initially measured at the present value of the lease payments over the lease term that are not paid at the commencement date, discounted using Alterna Savings' incremental borrowing rate. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise or to not exercise an extension option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated statements of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. A lease liability is remeasured when Alterna Savings changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss, if the carrying amount of the right-of-use asset has been reduced to zero.

Alterna Savings presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the consolidated balance sheets. Depreciation expense on the right-of-use assets is included in administration expense and interest expense is included in interest expense in the consolidated statements of income.

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#### *Lease modifications*

A lease modification is defined as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease. It includes adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term. A lease modification is not treated as a separate lease, unless it involves the addition of one or more underlying assets at a price that is commensurate with the standalone price of the increase in scope. If a modification is a separate lease, a lessee applies the requirements of IFRS 16 to the newly added leased asset independently of the original lease. Otherwise, the modification reflects that there is a linkage between the original lease and the modified lease. This means a lessee has to allocate the modified consideration to each separate lease component in the modified contract on the effective date of the modification, resulting in a remeasurement of the existing lease liability and right-of-use asset on that date by the same amount, including an update of the incremental borrowing rate.

#### *Short-term leases and leases of low-value assets*

As permitted by IFRS 16, Alterna Savings has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets under approximately \$5,000. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

#### **q) RECOGNITION OF INCOME AND EXPENSES**

Revenue is recognized when the amount of revenue and associated costs can be reliably measured and it is probable that economic benefits associated with the transaction will be realized. The following specific recognition criteria are used for recognition of income and expenses:

##### **i) Interest income and interest expense**

Interest income and interest expense are recognized in the consolidated statements of income for all interest-bearing financial instruments using the effective interest rate method, except for those designated as FVTPL. The estimated future cash flows used in this calculation include those determined by the contractual terms of the asset or liability, all fees that are considered to be integral to the effective interest rate, direct and incremental transaction costs, and all other premiums or discounts.

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 or that were purchased credit-impaired, for which interest revenue is calculated by applying the effective interest rate to their amortized cost.

##### **ii) Other income**

Service charges, ABM network fees, commissions and revenue from other sources are recognized as revenue when the related services are performed or are provided.

#### **r) SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

In the process of applying accounting policies, management has exercised judgment and estimates in determining the amounts recognized in the consolidated financial statements. The most significant uses of judgment and estimates are as follows:

#### **Judgments**

##### **i) Determination of business model**

The assessment to determine the appropriate business model is judgmental. Alterna Savings 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(f)(ii).

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## Notes to the Consolidated Financial Statements

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#### 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(j)(iii) and note 23.

#### Estimates

##### i) Fair value of financial instruments

Alterna Savings measures financial instruments such as cash equivalents, investments classified as FVOCI or designated as FVTPL and derivatives at fair value at each consolidated balance sheet 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 Savings 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 consolidated 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 consolidated financial statements on a recurring basis, Alterna Savings 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.

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, Alterna Savings relies upon independent valuations provided by a third party. The valuations use a discounted cash flow model that values the underlying assets based on asset spreads and expected timing of payments on the restructured notes. At the end of each reporting period, Alterna Savings reviews the assumptions and estimates used in the valuations for reasonability.

For the purposes of fair value disclosure, Alterna Savings 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 provision 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.

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Explanations of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 5 which also sets out key sensitivities of the ECL to changes in these elements.

#### **s) 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, 2021 and have not been applied in preparing these consolidated financial statements. Alterna Savings does not intend to adopt any of these standards early. The standards below are expected to have an impact on the consolidated financial statements of Alterna Savings:

##### **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.

#### **3. IMPACT OF COVID-19**

First reported in late December 2019 by the World Health Organization (“WHO”) as an unknown virus, the COVID-19 outbreak has continued to develop rapidly in 2021, with a significant number of infections globally. Measures taken to contain the virus after the WHO declared the outbreak as a global pandemic in March 2020 have affected economic activity and resulted in an uncertain macroeconomic environment, which in turn have implications on financial reporting. Vaccine rollout in Canada has been substantial through the end of 2021 leading to a large reduction of new infections and hospitalization. This has resulted in easing of restrictions implemented in 2020 and earlier in 2021, allowing businesses to open and the economic outlook to improve. However, variants such as the Omicron Variant, which has become the dominant strain in many countries, continues to cast uncertainty on the ultimate duration of the pandemic and impacts on the economy.

##### **i) Impact on estimates and assumptions**

The COVID-19 pandemic has increased the uncertainty as it relates to accounting for estimates and assumptions and therefore resulted in additional judgment being applied within those areas identified in note 2(r). Given the fast-evolving nature of COVID-19 and limited recent experience relating to the economic and financial impacts of such pandemics as well as the unprecedented levels of government support for consumers and businesses, the judgments and estimates applied in the preparation of these consolidated financial statements may change in the future. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods. The COVID-19 pandemic has especially increased the level of judgment and uncertainty in estimating significant estimates such as the measurement of the ECL and the fair value of financial instruments.

##### *Measurement of ECL*

See note 5(a) for more information on the impacts the COVID-19 pandemic had on the measurement of the ECL.

##### *Fair value of financial instruments*

Estimating the fair value of financial instruments requires judgment that is dependent on observable and available market information. As the COVID-19 pandemic has increased market volatility of certain financial instruments, Alterna Savings has applied an increased level of judgment to a broader population of financial instruments than would otherwise generally be required with the objective of determining the fair value that is most representative of those financial instruments.

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**ii) COVID-19 government lending programs**

Starting in 2020 and ending June 30, 2021, the Government of Canada launched the Canada Emergency Business Account (“CEBA”) program in order to provide access to additional credit for Canadian businesses impacted by the pandemic. The CEBA program provided interest-free, partially forgivable loans up to \$60,000 to qualifying businesses. The program was underwritten by Export Development Canada (“EDC”) but leveraged the infrastructure of certain financial institutions, such as Alterna Savings, to provide loans to existing clients of these financial institutions. Loans advanced under the CEBA program were not recognized on Alterna Savings’ consolidated balance sheets because they were funded by EDC and all the associated risks and rewards, including any exposure to payment defaults and principal forgiveness, were assumed by EDC. In order to reimburse the costs for administering the loans, EDC provided participating financial institutions, such as Alterna Savings, a fee, which Alterna Savings recognized as a reduction to operating expenses. Loans of \$35,030,000 (2020 - \$24,355,000) were outstanding to Alterna Savings’ members under the CEBA program as at December 31, 2021.

**4. LOANS AND ADVANCES**

<b>(000s)</b>	<b>31 Dec 2021</b>	<b>31 Dec 2020</b>
Loans and advances at amortized cost:		
Personal loans	<b>\$234,471</b>	\$284,711
Residential mortgage loans <sup>(1)</sup>	<b>2,677,404</b>	2,034,753
Commercial loans	<b>975,186</b>	1,073,651
	<b>\$3,887,061</b>	\$3,393,115
Less: Loss allowance (note 5)	<b>(4,339)</b>	(9,580)
<b>Total loans and advances at amortized cost</b>	<b>\$3,882,722</b>	\$3,383,535
Loans and advances at FVTPL:		
Residential mortgage loans <sup>(1)</sup>	<b>\$921,040</b>	\$1,239,298
Commercial loans	<b>54,146</b>	84,883
<b>Total loans and advances at FVTPL</b>	<b>\$975,186</b>	\$1,324,181
	<b>\$4,857,908</b>	\$4,707,716

<sup>(1)</sup> Effective January 1, 2021, Alterna Savings changed its business model for newly originated insured single-family residential mortgage loans from hold to sell (measured at FVTPL) to hold to collect (measured at amortized cost). Existing loans classified as FVTPL before January 1, 2021 were not reclassified.

**5. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

Alterna Savings is exposed to the following risks as a result of holding financial instruments: credit risk, market risk and liquidity risk. The following is a description of those risks and how Alterna Savings manages the exposure to them.

**a) CREDIT RISK**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. For Alterna Savings, the three main asset classes exposed to credit risk are loans, investments and derivative financial instruments on the consolidated balance sheets. Cash and cash equivalents on the consolidated balance sheets are placed with above grade rating financial institutions and therefore not exposed to credit risks.

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

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For loans, Alterna Savings mitigates its credit risk exposure by:

- defining its target market area;
- limiting the principal amount of credit to a borrower at any given time: \$100,000 in unsecured personal loans per borrower, \$2,500,000 in residential mortgage loans per borrower, \$20,000,000 in commercial mortgage loans per borrower and \$25,000,000 in aggregate loans per borrower and connected persons;
- performing a credit analysis prior to the approval of a loan;
- obtaining collateral when appropriate;
- employing risk-based pricing; and
- limiting the concentration by industry and geographic location for commercial loans.

Loan exposures are managed and monitored through facility limits for individual borrowers and a credit review process. This review ensures that the borrower complies with internal policy and underwriting standards. Alterna Savings relies on collateral security typically in the form of a fixed and floating charge over the assets of its borrowers. Credit risk is also managed through regular analysis of the ability of members to meet interest and principal repayment obligations and by changing these lending limits where appropriate.

Alterna Savings holds collateral against loans and advances to members in the form of mortgage interests over property, other registered securities over assets, and guarantees. Alterna Savings liquidates the collateral asset to recover all or part of the outstanding exposure in cases where the borrower is unable or unwilling to fulfill its primary obligations.

Credit risk is limited for mortgages secured by residential properties as 65% (2020 – 59%) of the residential mortgages are fully insured by mortgage insurance companies. Alterna Savings monitors the concentration risk from commercial loans by setting maximum exposure limits for total loan balances for each industry. The carrying amount of financial assets recorded in the consolidated financial statements, net of the loss allowance, represents Alterna Savings' maximum exposure to credit risk without taking account of the value of any collateral obtained.

Alterna Savings 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 are within the policy limit. This also mitigates concentration risk in the portfolio. The quality of the counterparties is assessed through two published credit rating agencies, DBRS and S&P, as indicated above.

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

#### **(i) Amounts arising from ECL**

##### **Definition of default**

Alterna Savings 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 Savings in full, without recourse by Alterna Savings 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 Savings. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

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In assessing whether a borrower is in default, Alterna Savings 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; 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 Savings 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 ECL 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.

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 Savings 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 Savings 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, 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.

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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 Savings 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 Savings considers a longer period. The maximum contractual period extends to the date at which Alterna Savings 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 Savings measures ECL over a period longer than the maximum contractual period. This occurs if Alterna Savings' contractual ability to demand repayment and cancel the undrawn commitment does not limit Alterna Savings' 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 Savings can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when Alterna Savings 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 Savings 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 lines of credit, Alterna Savings will consider an estimation of future draw downs.

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 Savings 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 Savings' 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
- 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 Savings 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 full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

Alterna Savings 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).

#### *Impact of the COVID-19 pandemic*

The determination of whether a SICR has occurred in the COVID-19 pandemic required additional judgment in the evaluation of the evolving macroeconomic environment, loan repayment deferral programs and unprecedented level of government support provided to individuals and businesses.

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Alterna Savings has determined that a request and approval of a COVID-19 loan repayment deferral is not an automatic SICR trigger after considering a number of factors which include:

- The scale of the government response to support consumers and business;
- The expected temporary nature of the economic impact; and
- Guidance issued by the IASB on 27 March 2020.

However, the inclusion of a loan in a loan repayment deferral program did not preclude its migration to stage 2 if it was determined that there was a SICR based on Alterna Savings' assessment of the changes in the risk of a default occurring over the expected life of a loan.

#### **Risk ratings**

Alterna Savings 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 Savings 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 Savings 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 Savings 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.

#### **Forward-looking information**

Alterna Savings 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.

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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 actual assumptions used in the determination of Alterna Savings 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 Savings 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 Savings then uses these forecasts to adjust its estimates.

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 2021	31 Dec 2020
Probability-weighted ECL (reported loss allowance)	<b>\$4,306</b>	\$9,587
Baseline case ECL	<b>4,339</b>	9,580
Difference	<b>(\$33)</b>	\$7

*Impact of the COVID-19 pandemic*

The forecasting of forward-looking information during the COVID-19 pandemic required an increased level of judgment in various areas as forecasts reflect numerous assumptions and uncertainties regarding the economic impact of pandemic. The uncertainty around the spread of the Omicron variant, new variants that may emerge and the impact to the economy may lead to changes in assumption. This will also be dependent on the extent to which vaccines will be effective at controlling emerging variants of the virus, and the ability of governments, businesses and health-care systems to effectively limit the epidemiological and economic impacts of the resurgence of the virus, including its variants. As a result, significant changes were made to Alterna Savings’ forecasts during the year. While there were a wide range of possible scenarios and macro-economic outcomes including the uncertainty of how COVID-19 and its financial and economic impacts will evolve, the scenarios and assumptions applied represent Alterna Savings’ forward-looking views at the reporting date.

**Use of management overlays**

Management overlays to ECL estimates are adjustments used in circumstances where Alterna Savings 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 Savings’ current parameters, internal risk ratings migrations, or forward-looking information.

*Impact of the COVID-19 Pandemic*

Due to the improvements in the current economic environment, Alterna Savings removed the prior year management overlays to the ECL that addressed the impacts the COVID-19 pandemic may have had on the measurement of the ECL for certain loan exposures that were believed to be most susceptible to additional risks. Considering the unprecedented level of government support, the management overlays took into account Alterna Savings’ expectations concerning the degree to which forward-looking information would correlate with credit losses and recoveries in the current environment. The reversal of management overlays requires the application of significant judgment that impacts the amount of ECL allowances recognized. Actual credit losses or recoveries could differ materially from those reflected in these estimates. Although there have been improvements, a high degree of uncertainty remains and there may be future volatility in ECLs.

**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.

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

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 as part of Alterna Savings' usual lending business.

**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.

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(000s)	31 Dec 2021				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit- impaired loans	Stage 3 Lifetime ECL - credit- impaired loans	Purchased credit- impaired	Total
<b>Loss allowance on Personal Loans</b>					
<b>As at 1 Jan</b>	\$ 554	\$ 2,234	\$ 865	\$ 233	\$ 3,886
Amounts written off	-	-	(457)	(20)	(477)
Transfers to (from) Stage 1 - 12-month ECL	(104)	13	91	-	-
Transfers to (from) Stage 2 - Lifetime ECL - not credit-impaired loans	10	(121)	111	-	-
Transfers to (from) Stage 3 - Lifetime ECL - credit-impaired loans	1	2	(3)	-	-
Recoveries on loans previously written off	-	-	365	-	365
Allowance charged to (recovered from) operations	(183)	(1,815)	(166)	(142)	(2,306)
<b>As at 31 Dec</b>	\$ 278	\$ 313	\$ 806	\$ 71	\$ 1,468
<b>Loss allowance on Residential Mortgages</b>					
<b>As at 1 Jan</b>	\$ 344	\$ 481	\$ 78	\$ -	\$ 903
Amounts written off	-	-	(43)	-	(43)
Transfers to (from) Stage 1 - 12-month ECL	(15)	8	5	-	(2)
Transfers to (from) Stage 2 - Lifetime ECL - not credit-impaired loans	1	(7)	6	-	-
Transfers to (from) Stage 3 - Lifetime ECL - credit-impaired loans	-	1	(1)	-	-
Recoveries on loans previously written off	-	-	-	-	-
Allowance charged to (recovered from) operations	(255)	(382)	13	-	(624)
<b>As at 31 Dec</b>	\$ 75	\$ 101	\$ 58	\$ -	\$ 234
<b>Loss allowance on Commercial loans</b>					
<b>As at 1 Jan</b>	\$ 14	\$ 2,160	\$ 2,568	\$ 49	\$ 4,791
Amounts written off	-	-	(629)	-	(629)
Transfers to (from) Stage 1 - 12-month ECL	(20)	20	-	-	-
Transfers to (from) Stage 2 - Lifetime ECL - not credit-impaired loans	1	(27)	26	-	-
Transfers to (from) Stage 3 - Lifetime ECL - credit-impaired loans	4	315	(319)	-	-
Recoveries on loans previously written off	-	-	-	-	-
Allowance charged to (recovered from) operations	18	(1,891)	366	(18)	(1,525)
<b>As at 31 Dec</b>	\$ 17	\$ 577	\$ 2,012	\$ 31	\$ 2,637
<b>Total as at 31 Dec</b>	\$ 370	\$ 991	\$ 2,876	\$ 102	\$ 4,339

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(000s)	31 Dec 2020					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit- impaired loans	Stage 3 Lifetime ECL - credit- impaired loans	Purchased credit- impaired	Total	
<b>Loss allowance on Personal Loans</b>						
<b>As at 1 Jan</b>	\$ 245	\$ 135	\$ 900	\$ 71	\$	1,351
Transfer in on business combinations:	378	45	-	272	-	695
Amounts written off	-	-	(521)	(72)	-	(593)
Transfers to (from) Stage 1 - 12-month ECL	(78)	19	59	-	-	-
Transfers to (from) Stage 2 - Lifetime ECL - not credit-impaired loans	9	(78)	69	-	-	-
Transfers to (from) Stage 3 - Lifetime ECL - credit-impaired loans	1	6	(7)	-	-	-
Recoveries on loans previously written off	-	-	246	-	-	246
Allowance charged to (recovered from) operations	(1)	2,107	119	(38)	-	2,187
<b>As at 31 Dec</b>	<b>\$ 554</b>	<b>\$ 2,234</b>	<b>\$ 865</b>	<b>\$ 233</b>	<b>\$</b>	<b>3,886</b>
<b>Loss allowance on Residential Mortgages</b>						
<b>As at 1 Jan</b>	\$ 28	\$ 23	\$ 32	\$ -	\$	83
Transfer in on business combinations:	103	5	-	-	-	108
Amounts written off	-	-	-	-	-	-
Transfers to (from) Stage 1 - 12-month ECL	(7)	4	3	-	-	-
Transfers to (from) Stage 2 - Lifetime ECL - not credit-impaired loans	1	(6)	5	-	-	-
Transfers to (from) Stage 3 - Lifetime ECL - credit-impaired loans	-	3	(3)	-	-	-
Recoveries on loans previously written off	-	-	-	-	-	-
Allowance charged to (recovered from) operations	219	452	41	-	-	712
<b>As at 31 Dec</b>	<b>\$ 344</b>	<b>\$ 481</b>	<b>\$ 78</b>	<b>\$ -</b>	<b>\$</b>	<b>903</b>
<b>Loss allowance on Commercial loans</b>						
<b>As at 1 Jan</b>	\$ 8	\$ 27	\$ 3,225	\$ -	\$	3,260
Transfer in on business combinations:	6	57	-	49	-	112
Amounts written off	-	-	(2,932)	-	-	(2,932)
Transfers to (from) Stage 1 - 12-month ECL	(87)	-	87	-	-	-
Transfers to (from) Stage 2 - Lifetime ECL - not credit-impaired loans	2	(2,003)	2,001	-	-	-
Transfers to (from) Stage 3 - Lifetime ECL - credit-impaired loans	-	-	-	-	-	-
Recoveries on loans previously written off	-	-	-	-	-	-
Allowance charged to (recovered from) operations	85	4,079	187	-	-	4,351
<b>As at 31 Dec</b>	<b>\$ 14</b>	<b>\$ 2,160</b>	<b>\$ 2,568</b>	<b>\$ 49</b>	<b>\$</b>	<b>4,791</b>
<b>Total as at 31 Dec</b>	<b>\$ 912</b>	<b>\$ 4,875</b>	<b>\$ 3,511</b>	<b>\$ 282</b>	<b>\$</b>	<b>9,580</b>

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**(ii) Financial assets by stage**

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

(000s)	31 Dec 2021						31 Dec 2020	
	Gross carrying amount	Loss allowance	Carrying amount	Gross carrying amount	Loss allowance	Carrying amount		
<b>Personal Loans</b>								
Stage 1 - 12-month ECL	\$ 215,100	\$ 278	\$ 214,822	\$ 262,389	\$ 554	\$ 261,835		
Stage 2 - Lifetime ECL - not credit-impaired loans	12,428	313	12,115	14,217	2,234	11,983		
Stage 3 - Lifetime ECL - credit-impaired loans	6,838	806	6,032	7,822	865	6,957		
Purchased credit-impaired	105	71	34	283	233	50		
	\$ 234,471	\$ 1,468	\$ 233,003	\$ 284,711	\$ 3,886	\$ 280,825		
<b>Residential Mortgages</b>								
Stage 1 - 12-month ECL	\$ 2,533,038	\$ 75	\$ 2,532,963	\$ 1,889,879	\$ 344	\$ 1,889,535		
Stage 2 - Lifetime ECL - not credit-impaired loans	90,710	101	90,609	100,803	481	100,322		
Stage 3 - Lifetime ECL - credit-impaired loans	53,656	58	53,598	44,071	78	43,993		
	\$ 2,677,404	\$ 234	\$ 2,677,170	\$ 2,034,753	\$ 903	\$ 2,033,850		
<b>Commercial Loans</b>								
Stage 1 - 12-month ECL	\$ 716,178	\$ 17	\$ 716,161	\$ 945,372	\$ 14	\$ 945,358		
Stage 2 - Lifetime ECL - not credit-impaired loans	255,325	577	254,748	122,173	2,160	120,013		
Stage 3 - Lifetime ECL - credit-impaired loans	3,652	2,012	1,640	6,057	2,568	3,489		
Purchased credit-impaired	31	31	-	49	49	-		
	\$ 975,186	\$ 2,637	\$ 972,549	\$ 1,073,651	\$ 4,791	\$ 1,068,860		
<b>Total</b>	\$ 3,887,061	\$ 4,339	\$ 3,882,722	\$ 3,393,115	\$ 9,580	\$ 3,383,535		

**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 2021					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit- impaired loans	Stage 3 Lifetime ECL - credit-impaired loans	Purchased credit- impaired	Total	
<b>Personal Loans</b>						
0 to 29 days	\$ 215,095	\$ 12,368	\$ 5,149	\$ 84	\$ 232,696	
30 to 89 days	5	60	482	-	547	
90 days and greater	-	-	1,207	21	1,228	
	\$ 215,100	\$ 12,428	\$ 6,838	\$ 105	\$ 234,471	
<b>Residential Mortgages</b>						
0 to 29 days	\$ 2,532,927	\$ 89,649	\$ 49,481	\$ -	\$ 2,672,057	
30 to 89 days	111	1,061	2,730	-	3,902	
90 days and greater	-	-	1,445	-	1,445	
	\$ 2,533,038	\$ 90,710	\$ 53,656	\$ -	\$ 2,677,404	
<b>Commercial Loans</b>						
0 to 29 days	\$ 713,598	\$ 255,308	\$ 3,481	\$ 31	\$ 972,418	
30 to 89 days	2,580	17	95	-	2,692	
90 days and greater	-	-	76	-	76	
	\$ 716,178	\$ 255,325	\$ 3,652	\$ 31	\$ 975,186	
<b>Total</b>	\$ 3,464,316	\$ 358,463	\$ 64,146	\$ 136	\$ 3,887,061	

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Days Overdue	31 Dec 2020					Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit- impaired loans	Stage 3 Lifetime ECL - credit-impaired loans	Purchased credit- impaired		
<b>Personal Loans</b>						
0 to 29 days	\$ 262,389	\$ 13,864	\$ 6,243	\$ 216	\$	282,712
30 to 89 days	-	353	407	-		760
90 days and greater	-	-	1,172	67		1,239
	\$ 262,389	\$ 14,217	\$ 7,822	\$ 283	\$	284,711
<b>Residential Mortgages</b>						
0 to 29 days	\$ 1,889,879	\$ 98,269	\$ 39,581	\$ -	\$	2,027,729
30 to 89 days	-	2,534	2,232	-		4,766
90 days and greater	-	-	2,258	-		2,258
	\$ 1,889,879	\$ 100,803	\$ 44,071	\$ -	\$	2,034,753
<b>Commercial Loans</b>						
0 to 29 days	\$ 945,372	\$ 105,905	\$ 1,807	\$ 49	\$	1,053,133
30 to 89 days	-	16,268	1,208	-		17,476
90 days and greater	-	-	3,042	-		3,042
	\$ 945,372	\$ 122,173	\$ 6,057	\$ 49	\$	1,073,651
<b>Total</b>	\$ 3,097,640	\$ 237,193	\$ 57,950	\$ 332	\$	3,393,115

**(iii) Collateral**

Alterna Savings 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 Savings holds as security for loans include: (i) residential lots and properties; (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable; (iii) recourse to the commercial real estate properties being financed; and (iv) recourse to liquid assets, guarantees and securities. 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 Savings closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely Alterna Savings will take possession to mitigate potential credit losses. There were two repossessions during 2021 (2021 – four) with an appraisal value of \$390,000 (2020 – 459,000).

**(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 Savings has made concessions by agreeing to terms and conditions that are more favourable for the borrower than Alterna Savings 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.

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

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Alterna Savings' interest rate risk objective is to maximize interest margin while complying with the approved interest rate risk policy limits. Alterna Savings 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 Savings' (unconsolidated parent entity) 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 Savings' (unconsolidated parent entity) maximum tolerance exposure to short-term interest rate risk over 12 months is restricted to 3% of average forecasted net interest income with a 95% confidence level. Its maximum tolerable exposure to interest rate risk is restricted to a 7% decline in the market value of equity as a limit to mitigate long-term interest rate risk. As at December 31, 2021, the results for these measures were 0.30% (2020 – 0.06%) and -2.47% (2020 – 0.98%), respectively.

The following table details Alterna Savings' 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 2021	31 Dec 2020
			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	\$ 272,011	\$ 660,045	\$ -	\$ -	\$ -	\$ -	\$ 932,056	\$ 1,352,901	
Interest Rates	-	0.25%	-	-	-	-	0.18%	0.30%	
Investments	\$ 19,296	\$ -	\$ 100,860	\$ 111,651	\$ 496,002	\$ -	\$ 727,809	\$ 457,688	
Interest Rates	-	-	0.42%	0.29%	1.48%	-	1.11%	1.31%	
Personal loans	\$ -	\$ 203,888	\$ 2,270	\$ 8,018	\$ 7,907	\$ 10,920	\$ 233,003	\$ 280,825	
Interest Rates	-	3.44%	6.35%	3.68%	5.42%	3.23%	3.54%	3.66%	
Residential mortgage loans	\$ 22,914	\$ 93,945	\$ 229,886	\$ 728,098	\$ 2,495,974	\$ 27,393	\$ 3,598,210	\$ 3,273,148	
Interest Rates	-	1.84%	2.68%	2.73%	2.33%	2.53%	2.41%	2.74%	
Commercial loans	\$ -	\$ 149,584	\$ 80,677	\$ 205,090	\$ 507,364	\$ 83,980	\$ 1,026,695	\$ 1,153,743	
Interest Rates	-	4.14%	3.84%	3.96%	3.77%	3.23%	3.83%	3.91%	
Other	\$ 180,617	\$ 3,843	\$ -	\$ -	\$ -	\$ -	\$ 184,460	\$ 184,586	
<b>TOTAL ASSETS</b>	<b>\$ 494,838</b>	<b>\$ 1,111,305</b>	<b>\$ 413,693</b>	<b>\$ 1,052,857</b>	<b>\$ 3,507,247</b>	<b>\$ 122,293</b>	<b>\$ 6,702,233</b>	<b>\$ 6,702,891</b>	
Deposits	\$ -	\$ 3,578,597	\$ 309,976	\$ 829,127	\$ 483,387	\$ 2	\$ 5,201,089	\$ 5,231,712	
Interest Rates	-	0.27%	1.45%	1.09%	1.23%	0.00%	0.56%	0.99%	
Borrowings	\$ -	\$ -	\$ 255,884	\$ -	\$ -	\$ -	\$ 255,884	\$ 141,494	
Interest Rates	-	-	0.48%	-	-	-	0.48%	0.48%	
Mortgage securitization liabilities	\$ -	\$ -	\$ -	\$ 276,975	\$ 465,093	\$ 664	\$ 742,732	\$ 792,607	
Interest Rates	-	-	-	1.86%	1.65%	3.17%	1.73%	1.92%	
Other	\$ 7,551	\$ 60,449	\$ -	\$ -	\$ -	\$ -	\$ 68,000	\$ 98,801	
Members' equity	\$ 434,528	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 434,528	\$ 438,277	
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 442,079</b>	<b>\$ 3,639,046</b>	<b>\$ 565,860</b>	<b>\$ 1,106,102</b>	<b>\$ 948,480</b>	<b>\$ 666</b>	<b>\$ 6,702,233</b>	<b>\$ 6,702,891</b>	
<b>MATCHING GAP</b>	<b>\$ 52,759</b>	<b>\$ (2,527,741)</b>	<b>\$ (152,167)</b>	<b>\$ (53,245)</b>	<b>\$ 2,558,767</b>	<b>\$ 121,627</b>	<b>\$ -</b>	<b>\$ -</b>	

*Sensitivity Analysis*

The key metrics that Alterna Savings 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 consolidated 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 Savings 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 2021	31 Dec 2020
EaR	(\$536)	\$6,366
EVEaR	(2.32%)	0.95%

## **ALTERNA SAVINGS**

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#### **(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 Savings' consolidated net income is exposed to currency risk because of US dollar member deposits.

Alterna Savings mitigates currency risk by holding cash in US dollars, entering into USD-CAD FX swaps or investing in USD money market instruments. Currency risk is managed in accordance with the Structural Risk Management Policy. The policy is reviewed and approved annually by the Board.

Alterna Savings measures currency risk based on the percentage of foreign denominated financial assets against foreign currency denominated financial liabilities on a daily basis. As at December 31, 2021, the percentage of foreign currency denominated financial assets is within 90%–110% of foreign currency denominated financial liabilities. For a 10% instantaneous exchange rate increase (decrease), Alterna Savings' consolidated net income exposure is minimal.

#### **(iii) Price risk**

Alterna Savings is exposed to price risk on its investment in a private equity fund (see note 22). Price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices other than those arising from interest rate risk and currency risk. Such fluctuations may occur because of factors specific to the individual investment or those affecting similar investments in the industry. The private equity fund investment is subject to normal market fluctuations and the risks inherent with investments in early stage equity investments. The manager of the private equity fund investment manages price risk by diversifying their portfolio of underlying investments across geographies and industry sectors.

As at December 31, 2021, the impact of a 10% increase/ decrease on the fair value of the private equity fund investment would result in a \$1,241,000 (2020 - \$518,000) increase/ decrease to Alterna Savings income before income taxes.

#### **c) LIQUIDITY RISK**

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

Liquidity risk is managed in accordance with the Liquidity Management and Funding Policy. The policy is reviewed and approved annually by the Board. Alterna Savings manages liquidity risk by monitoring cash flows and cash forecasts, maintaining a pool of high quality liquid financial assets, maintaining a stable base of core and term deposits, monitoring concentration limits on single sources of deposits, and diversifying funding sources. In addition, in the event of a liquidity crisis affecting Central 1, Alterna Savings' credit facilities with Central 1 are supported by Central 1's access to the Inter-Central Liquidity Agreement. Alterna Savings reports the liquidity risk against policy limits to ALCO on a monthly basis and to the Board on a minimum quarterly basis.

Alterna Savings (unconsolidated parent entity) maintains a minimum of 9% (2020 – 9%) of the amount of deposits and borrowings in liquid assets. As at December 31, 2021, the percentage of liquid assets to total deposits and borrowings was 33.89% (2020 – 39.05%). For the contractual maturities of assets and liabilities, please refer to the table under note 5(b)(i) Interest rate risk.

In addition to the liquidity ratio, effective December 31, 2017, credit unions with assets in excess of \$500 million are also expected to adopt Liquidity Coverage Ratio ("LCR"), Net Stable Funding Ratio ("NSFR"), and Net Cumulative Cash Flow ("NCCF") metrics to help measure, monitor and manage their level of liquidity. As at December 31, 2021, the LCR and NSFR minimums were met and the NCCF did not show any liquidity deficiencies over the next 12-month period.

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 23.

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(000s)					31 Dec 2021	31 Dec 2020
	Less than 1 year	1 to 5 years	Over 5 years	Due on demand <sup>(1)</sup>	Total	Total
Deposits	\$1,139,103	\$483,387	\$2	\$3,578,597	\$5,201,089	\$5,231,712
Borrowings	255,884	-	-	-	255,884	141,494
Mortgage securitization liabilities	276,975	465,093	664	-	742,732	792,607
	<b>\$1,671,962</b>	<b>\$948,480</b>	<b>\$666</b>	<b>\$3,578,597</b>	<b>\$6,199,705</b>	<b>\$6,165,813</b>

<sup>(1)</sup> Credit instruments approved as at December 31, 2021 but have not yet been disbursed are disclosed in note 26. Once disbursed and recorded, these credit instruments will be due on demand.

**6. INVESTMENTS**

(000s)	31 Dec 2021	31 Dec 2020
Classified as FVTPL:		
Private Equity Fund	\$12,412	\$5,178
Debt instruments classified as FVOCI:		
Central 1 liquidity deposits	-	6,361
Money market instruments	704,379	418,205
Equity instruments designated as FVOCI:		
Central 1 shares	10,235	27,186
Other	783	758
	<b>\$727,809</b>	<b>\$457,688</b>

Effective January 4, 2021, in response to the changes to the regulatory environment requirements for funds held in Central 1's Mandatory Liquidity Pool ("MLP") to be bankruptcy-remote and creditor proof, Alterna Savings terminated its pre-existing liquidity agreement with Central 1. Effective January 4, 2021, Alterna Savings manages its own liquidity in accordance with the Liquidity Guidance issued by FSRA. Prior to January 4, 2021, as a condition of maintaining membership in Central 1 in good standing, Alterna Savings was required to maintain deposits in MLP of an amount equal to 6% of its total assets adjusted by the 20<sup>th</sup> day of each month in accordance with the assets as at the previous month-end. The deposits bear interest at various rates. As at December 31, 2021, \$nil (2020 - \$6,361,000) of deposits in Central 1's MLP were classified on Alterna Savings' consolidated balance sheets as investments and \$nil (2020 - \$340,002,000) were classified as cash and cash equivalents (see note 27).

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**7. PROPERTY AND EQUIPMENT**

(000s)	Land	Buildings	Furniture and Equipment	Computer Hardware	Leasehold Improvements	Total
<b>Cost:</b>						
Balance as at January 1, 2021	4,965	30,475	8,361	6,091	12,784	62,676
Additions <sup>(1)</sup>	-	2,376	254	557	49	3,236
Disposals	-	(786)	(252)	-	(6)	(1,044)
<b>Balance as at December 31, 2021</b>	<b>4,965</b>	<b>32,065</b>	<b>8,363</b>	<b>6,648</b>	<b>12,827</b>	<b>64,868</b>
<b>Depreciation and impairment:</b>						
Balance as at January 1, 2021	-	8,248	5,319	4,007	6,783	24,357
Depreciation	-	3,565	723	913	719	5,920
Disposals	-	(786)	(235)	-	(5)	(1,026)
<b>Balance as at December 31, 2021</b>	<b>-</b>	<b>11,027</b>	<b>5,807</b>	<b>4,920</b>	<b>7,497</b>	<b>29,251</b>
<b>Net book value:</b>						
Balance as at January 1, 2021	4,965	22,227	3,042	2,084	6,001	38,319
<b>Balance as at December 31, 2021</b>	<b>\$ 4,965</b>	<b>\$ 21,038</b>	<b>\$ 2,556</b>	<b>\$ 1,728</b>	<b>\$ 5,330</b>	<b>\$ 35,617</b>

(000s)	Land	Buildings	Furniture and Equipment	Computer Hardware	Leasehold Improvements	Total
<b>Cost:</b>						
Balance as at January 1, 2020	3,543	27,991	8,254	5,426	12,772	57,986
Additions <sup>(1)</sup>	-	530	100	1,088	81	1,799
Additions from business combinations (note 25)	1,513	2,271	239	361	-	4,384
Disposals	(91)	(317)	(232)	(784)	(69)	(1,493)
<b>Balance as at December 31, 2020</b>	<b>4,965</b>	<b>30,475</b>	<b>8,361</b>	<b>6,091</b>	<b>12,784</b>	<b>62,676</b>
<b>Depreciation and impairment:</b>						
Balance as at January 1, 2020	-	4,396	4,801	3,985	6,082	19,264
Depreciation	-	3,902	740	806	747	6,195
Disposals	-	(50)	(222)	(784)	(46)	(1,102)
<b>Balance as at December 31, 2020</b>	<b>-</b>	<b>8,248</b>	<b>5,319</b>	<b>4,007</b>	<b>6,783</b>	<b>24,357</b>
<b>Net book value:</b>						
Balance as at January 1, 2020	3,543	23,595	3,453	1,441	6,690	38,722
<b>Balance as at December 31, 2020</b>	<b>\$ 4,965</b>	<b>\$ 22,227</b>	<b>\$ 3,042</b>	<b>\$ 2,084</b>	<b>\$ 6,001</b>	<b>\$ 38,319</b>

(1) Includes impact of lease modifications.

For details of right-of-use assets included in the above, refer to note 14.

Total depreciation charged to income in 2021, including the foregoing right-of-use asset depreciation, was \$5,920,000 (2020 – \$6,195,000) and is included in administration and occupancy expenses under operating expenses on the consolidated statements of income.

The gross carrying amount of fully depreciated property and equipment that are still in use is \$10,536,000 as at December 31, 2021 (2020 – \$9,485,000).

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**8. INTANGIBLE ASSETS**

(000s)	Computer Software 2021	Goodwill 2021	Total 2021	Computer Software 2020	Goodwill 2020	Total 2020
<b>Cost:</b>						
Balance as at January 1	\$23,593	\$1,256	\$24,849	\$19,660	\$803	\$20,463
Additions	1,920	-	1,920	3,747	-	3,747
Additions from business combinations (note 25)	-	-	-	230	453	683
Disposals	-	-	-	(44)	-	(44)
<b>Balance as at December 31</b>	<b>25,513</b>	<b>1,256</b>	<b>26,769</b>	<b>23,593</b>	<b>1,256</b>	<b>24,849</b>
<b>Amortization and impairment:</b>						
Balance as at January 1	10,694	-	10,694	9,323	-	9,323
Amortization	1,528	-	1,528	1,415	-	1,415
Disposals	-	-	-	(44)	-	(44)
<b>Balance as at December 31</b>	<b>12,222</b>	<b>-</b>	<b>12,222</b>	<b>10,694</b>	<b>-</b>	<b>10,694</b>
<b>Net book value:</b>						
Balance as at January 1	12,899	1,256	14,155	10,337	803	11,140
<b>Balance as at December 31</b>	<b>\$13,291</b>	<b>\$1,256</b>	<b>\$14,547</b>	<b>\$12,899</b>	<b>\$1,256</b>	<b>\$14,155</b>

Total amortization charged to income in 2021 was \$1,528,000 (2020 – \$1,415,000) and is included in administration expenses under operating expenses on the consolidated statements of income. All computer software assets have been acquired, not developed.

The gross carrying amount of fully amortized computer software assets that are still in use is \$5,778,000 as at December 31, 2021 (2020 – \$5,257,000).

**9. OTHER ASSETS**

(000s)	31 Dec 2021	31 Dec 2020
Securitization receivables and deferred charges	\$47,075	\$60,528
Restricted cash <sup>(1)</sup>	36,377	30,958
Prepaid expenses and other deferred charges	9,673	13,574
Accrued interest receivable	9,303	10,569
Other	9,450	4,466
	<b>\$111,878</b>	<b>\$120,095</b>

<sup>(1)</sup> Included in restricted cash is \$32,456 (2020 - \$14,290) held as an unscheduled prepayment cash reserve, a requirement of Alterna Savings' participation in the NHA MBS program. The use of these funds is restricted to those allowed as provided for by the program. Restricted cash also includes \$3,921 (2020 - \$16,668) held by counterparties as collateral for Alterna Savings' derivative transactions (note 23). The terms and conditions for the collateral are governed by the International Swaps and Derivatives Association agreements which gives conditional rights of set-off that are enforceable and exercisable only in the event of default, insolvency, or bankruptcy of any of the counterparties

**10. DEPOSITS**

(000s)	31 Dec 2021	31 Dec 2020
Demand deposits	\$3,081,669	\$2,737,800
Term deposits	950,951	1,273,223
Registered plans	1,168,469	1,220,689
	<b>\$5,201,089</b>	<b>\$5,231,712</b>

As at December 31, 2021, members' deposits denominated in US Dollars amounted to US\$53,849,000 (2020 – US\$72,286,000) with a carrying amount of \$68,798,000 (2020 – \$92,035,000).

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**11. BORROWINGS**

<b>(000s)</b>	<b>31 Dec 2021</b>	31 Dec 2020
Borrowings	<b>\$130,000</b>	\$100,000
Repurchase agreements	<b>125,884</b>	41,494
	<b>\$255,884</b>	\$141,494

Alterna Savings has access to a \$391,768,000 credit facility with Central 1 (2020 – \$391,836,000) of which the balance outstanding was \$130,000,000 as at December 31, 2021 (2020 – \$100,000,000). The facilities are secured by a pledge of certain assets under a general security agreement. This credit facility is in good standing as at December 31, 2021.

Alterna Savings also has access to a \$250,000,000 revolving credit facility with major Canadian Banks (2020 – \$250,000,000) of which the balance outstanding as at December 31, 2021 was \$nil (2020 – \$nil). The facility is secured by mortgage collateral.

Alterna Savings must comply with certain financial covenants in order to be in compliance with its borrowings. As at December 31, 2021, Alterna Savings is in compliance with all required financial covenants.

Borrowings also include \$125,884,000 (2020 – \$41,494,000) in short-term borrowings in the form of investment repurchase agreements.

**12. MORTGAGE SECURITIZATION LIABILITIES**

<b>(000s)</b>	<b>31 Dec 2021</b>	31 Dec 2020
Mortgage securitization liabilities <sup>(1)</sup>	<b>\$742,732</b>	\$792,607

<sup>(1)</sup> Of which \$258,526 (2020 - \$123,034) are measured at FVTPL.

As part of its program of liquidity, capital and interest rate risk management, Alterna Savings 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 Savings are required to be fully insured prior to sale, they pose minimal to no credit risk to Alterna Savings 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 Savings has retained substantially all the risks and rewards of ownership, primarily pre-payment and interest rate risk. Where Alterna Savings 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 consolidated balance sheets. Certain insured multi-unit residential mortgages with no prepayment privileges do qualify for derecognition upon the transfer of the asset.

Additionally, for certain MBS pools that do have pre-payment privileges, Alterna Savings may enter into additional transactions which, together with the MBS sale transaction 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. These transactions are derecognized from the consolidated balance sheets when the derecognition criteria in note 2(i)(iii) is met. Refer to note 19 for income generated from securitization activity.

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(000s)	31 Dec 2021	31 Dec 2020
Mortgages securitized:		
On-balance sheet (and included in loans)	\$1,219,176	\$1,290,434
Off-balance sheet	1,544,639	1,970,771

**13. OTHER LIABILITIES**

(000s)	31 Dec 2021	31 Dec 2020
Lease liabilities (note 14)	\$19,912	\$20,664
Accrued interest payable	13,283	20,704
Trade payables and accrued expenses	12,137	13,392
Dividend payable	6,135	6,130
Salaries and benefits payable	5,808	3,554
Certified cheques	1,585	2,118
Accrued benefit liability (note 20)	346	380
	<b>\$59,206</b>	<b>\$66,942</b>

**14. LEASES**

**a) AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEETS**

The consolidated balance sheets show the following amounts relating to leases:

(000s)	31 Dec 2021	31 Dec 2020
<b>Right-of-use assets <sup>(1)</sup></b>		
Buildings	\$16,320	\$17,243
Furniture and Equipment	120	14
	<b>\$16,440</b>	<b>\$17,257</b>
<b>Lease liabilities <sup>(2)</sup></b>		
Current	\$3,132	\$2,870
Non-current	16,780	17,794
	<b>\$19,912</b>	<b>\$20,664</b>

(1) included in the line item 'Property and equipment' in the consolidated balance sheets. Additions in the year were \$2,270,000 (2020 - \$458,000).

(2) included in the line item 'Other liabilities' in the consolidated balance sheets. Refer to maturity analysis of undiscounted cash flows below:

(000s)	31 Dec 2021				
	Less than 1 year	1 to 5 years	Over 5 years	No specified maturity	Total
Lease liabilities	\$3,870	\$12,034	\$6,950	\$-	\$22,854

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**b) AMOUNTS RECOGNIZED IN THE CONSOLIDATED STATEMENTS OF INCOME**

The consolidated statements of income shows the following amounts relating to leases:

<b>(000s)</b>	<b>31 Dec 2021</b>	<b>31 Dec 2020</b>
<b>Depreciation charge for right-of-use assets <sup>(1)</sup></b>		
Buildings	<b>\$3,194</b>	\$3,587
Furniture and Equipment	<b>21</b>	8
	<b>\$3,215</b>	\$3,595
<b>Interest expense <sup>(2)</sup></b>	<b>\$825</b>	\$899
<b>Expense relating to short-term leases <sup>(3)</sup></b>	<b>\$333</b>	\$358
<b>Expense relating to variable lease payments <sup>(3)</sup></b>	<b>\$3,059</b>	\$3,056

(1) \$21 (2020 – \$8) included in the line item ‘Administration’ and \$3,194 (2020 – \$3,587) in the line item ‘Occupancy’ in the consolidated statements of income.

(2) \$822 (2020 - \$899) included in the line item ‘Interest expense’ and \$3 (2020 - \$nil) included in the line item ‘Administration’ in the consolidated statements of income.

(3) included in the line item ‘Occupancy’ in the consolidated statements of income.

The total cash outflow for leases in 2021 was \$6,762,000 (2020 – \$8,659,000).

**15. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME**

The following table presents the components of accumulated other comprehensive (loss) income within the consolidated statements of changes in members’ equity.

<b>(000s)</b>	<b>31 Dec 2021</b>	<b>31 Dec 2020</b>
<i>Investments in debt instruments measured at FVOCI</i>		
1 January accumulated other comprehensive income (loss)	<b>\$1,271</b>	(\$1,102)
Other comprehensive (loss) income	<b>(10,879)</b>	2,373
31 December accumulated other comprehensive (loss) income	<b>(9,608)</b>	1,271
<i>Cash flow hedges</i>		
1 January accumulated other comprehensive income (loss)	<b>1,614</b>	(58)
Other comprehensive (loss) income	<b>(1,078)</b>	1,672
31 December accumulated other comprehensive income	<b>536</b>	1,614
<i>Defined benefit plan – actuarial losses</i>		
1 January accumulated other comprehensive loss	<b>(430)</b>	(400)
Other comprehensive income (loss)	<b>14</b>	(30)
31 December accumulated other comprehensive loss	<b>(416)</b>	(430)
<b>Total accumulated other comprehensive (loss) income</b>	<b>(\$9,488)</b>	\$2,455

**16. MEMBERS’ SHARE ACCOUNTS**

**a) AUTHORIZED**

The authorized share capital of Alterna Savings consists of the following:

- i. an unlimited number of Class A special shares, issuable in series
- ii. an unlimited number of Class B special shares, issuable in series
- iii. an unlimited number of Class C special shares, issuable in series
- iv. an unlimited number of membership shares

The shares have no par value.

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**b) SHARE FEATURES**

The rights, privileges, restrictions, terms and conditions attaching to the shares are as follows:

*Voting*

All Class A, Class B and Class C shares are non-voting.

Membership shares are voting with each member being entitled to one vote, regardless of the number of membership shares held by the member, provided that the member is at least 18 years of age. Each member under the age of 18 is required, as a condition of membership, to own one membership share with an issue price of \$1. All other members are required, as a condition of membership, to own 15 membership shares with an issue price of \$1 each.

*Dividends*

Holders of Class A, Class B, Class C and membership shares are entitled to non-cumulative dividends, when and if declared by the Board of Directors, in order of priority with Class A to receive dividends first, followed by in order Class B, Class C and membership shares. All Series holders will rank equally within their class in terms of priority in payment of dividends.

*Transferability*

No Class A, Class B, Class C or membership share is transferable to any person, other than a person who is a member of Alterna Savings, and then only on the approval of the Board of Directors.

*Participation upon Liquidation, Dissolution or Wind-Up*

Class A, Class B and Class C shareholders, in order of priority, are entitled to redeem their shares on liquidation, dissolution or wind-up. Holders of membership shares are entitled to the remaining property of Alterna Savings.

*Redemption or Cancellation*

Class A, Series 1 holders may request redemption of their shares within six months of the shares' anniversary date of September 1<sup>st</sup>. All redemptions are subject to the discretion of the Board of Directors and are limited annually to a maximum of 10% of the Class A, Series 1 shares outstanding at the end of the immediately preceding fiscal year. The redemption price equals the shares' face value, plus all declared and unpaid dividends thereon. Alterna Savings also has the option to purchase for cancellation all or any part of the outstanding Class A, Series 1 shares at any time after the expiry of the five years from the issue date.

Class A, Series 2 holders may request redemption of their shares on June 30<sup>th</sup> or December 31<sup>st</sup> annually. The Board of Directors considers, approves, and if necessary prorates requests for redemption, with redemption requests of the estate of deceased members, expelled members, members who must withdraw a minimum annual amount from their shares held in a Registered Retirement Income Fund and members who must transfer their shares held in a Registered Retirement Savings Plan to a Registered Retirement Income Fund taking priority. All redemption requests are at the discretion of the Board of Directors. Redemptions are limited semi-annually to a maximum of 5% and annually to a maximum of 10% of the Class A, Series 2 shares outstanding at the end of the immediately preceding fiscal year. The redemption price equals the shares' face value, plus all declared and unpaid dividends thereon. Alterna Savings also has the option to purchase for cancellation all or any part of the outstanding Class A, Series 2 shares at any time.

Class A, Series 3 holders may request redemption of their shares at any time. Requests are held to December 31<sup>st</sup> annually. The Board of Directors considers, approves, and if necessary prorates requests for redemption, with redemption requests of the estate of deceased members, expelled members, members who must withdraw a minimum annual amount from their shares held in a Registered Retirement Income Fund and members who must transfer their shares held in a Registered Retirement Savings Plan to a Registered Retirement Income Fund taking priority. All redemption requests are at the discretion of the Board of Directors. Redemptions are limited annually to a maximum of 10% of the Class A, Series 3 shares outstanding at the end of the immediately preceding fiscal year. The redemption price equals the shares' face value, plus all declared and unpaid dividends thereon. Alterna Savings also has the option to purchase for cancellation all or any part of the outstanding Class A, Series 3 shares at any time.

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Class A, Series 4 holders may request redemption of their shares at any time. Requests are held to December 31<sup>st</sup> annually. The Board of Directors will approve redemption requests once annually, at its first Board meeting in each fiscal year once redemptions can legally occur. All redemptions are at the discretion of the Board of Directors. Redemptions at the shareholder's option in a particular fiscal year are also subject to a limit of 10% of the number of the Class A, Series 4 shares, issued and outstanding at the end of the prior fiscal year. Alterna Savings, at its option, may reacquire the Class A, Series 4 shares, for cancellation after a period of five years following the issuance of the shares.

Class A, Series 5 holders are not permitted to redeem their shares prior to the fifth anniversary of their issuance. The fifth anniversary of their issuance would be between May 31<sup>st</sup> and August 31<sup>st</sup> of 2022. The Board will approve redemption requests once annually, at its first Board meeting in each fiscal year once redemptions can legally occur. All redemptions are at the discretion of the Board of Directors. Redemptions at the shareholder's option in a particular fiscal year are also subject to a limit of 10% of the number of the Class A, Series 5 shares, issued and outstanding at the end of the prior fiscal year. Alterna Savings, at its option, may reacquire the Class A, Series 5 shares, for cancellation after a period of five years following the issuance of the shares.

Class A, Series 6 holders are not permitted to redeem their shares prior to the fifth anniversary of their issuance. The fifth anniversary of their issuance would be between June 28<sup>th</sup> and September 30<sup>th</sup> of 2024. The Board will approve redemption requests once annually, at its first Board meeting in each fiscal year once redemptions can legally occur. All redemptions are at the discretion of the Board of Directors. Redemptions at the shareholder's option in a particular fiscal year are also subject to a limit of 10% of the number of the Class A, Series 6 shares, issued and outstanding at the end of the prior fiscal year. Alterna Savings, at its option, may reacquire the Class A, Series 6 shares, for cancellation after a period of five years following the issuance of the shares.

Class B, Series 1 holders can request redemption of their shares. However, all redemptions are at the discretion of the Board of Directors and are limited annually to a maximum of 10% of the Class B, Series 1 shares outstanding at the end of the immediately preceding fiscal year. The redemption price equals the shares' face value, plus all declared and unpaid dividends thereon. Alterna Savings also has the option to purchase for cancellation all or any part of the outstanding Class B, Series 1 shares held by the estates of deceased members or expelled members at any time.

Class B, Series 2 holders can request redemption of their shares. However, all redemptions are at the discretion of the Board of Directors and are limited annually to a maximum of 10% of the Class B, Series 2 shares outstanding at the end of the immediately preceding fiscal year. Alterna Savings, at its option, may reacquire the Class B, Series 2 shares, for cancellation after a period of five years following the issuance of the shares.

As no Class C shares have been issued, no redemption rights or restrictions are attached to the shares at this time.

Membership shares are redeemable at their issue price only when the member withdraws from membership in Alterna Savings. They are considered liabilities for accounting purposes because they are redeemable at the option of the holder.

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**c) ISSUED AND OUTSTANDING**

The continuity of the members' share accounts presented as special shares in members' equity and as membership shares in liabilities for the year ended December 31, 2021 is as follows (in thousands of dollars and thousands of shares):

	Class A Special Shares											
	Series 1		Series 2		Series 3		Series 4		Series 5		Series 6	
	Number of Shares	\$	Number of Shares	\$	Number of Shares	\$	Number of Shares	\$	Number of Shares	\$	Number of Shares	\$
Issued and outstanding as at December 31, 2019	15,622	15,433	9,649	9,649	34,997	34,605	1,315	1,315	75,002	74,296	50,000	49,620
Net shares issued (redeemed) net of issuance costs	1	1	(321)	(321)	(459)	(459)	30	30	(2)	(2)	-	-
Issued and outstanding as at December 31, 2020	15,623	15,434	9,328	9,328	34,538	34,146	1,345	1,345	75,000	74,294	50,000	49,620
Net shares issued (redeemed) net of issuance costs	24	24	198	198	(26)	(26)	17	17	(4)	(4)	2	(5)
Issued and outstanding as at December 31, 2021	15,647	15,458	9,526	9,526	34,512	34,120	1,362	1,362	74,996	74,290	50,002	49,615

	Class B Special Shares						Membership Shares	
	Series 1		Series 2		Number of Shares		\$	
	Number of Shares	\$	Number of Shares	\$	Number of Shares	\$	Number of Shares	\$
Issued and outstanding as at December 31, 2019	2,045	2,045	270	270	1,804	1,804		
Issued on business combinations (note 25)	-	-	-	-	242	242		
Net shares issued (redeemed) net of issuance costs	(1)	(1)	(9)	(9)	64	64		
Issued and outstanding as at December 31, 2020	2,044	2,044	261	261	2,110	2,110		
Net shares issued (redeemed) net of issuance costs	(67)	(67)	(10)	(10)	(29)	(29)		
Issued and outstanding as at December 31, 2021	1,977	1,977	251	251	2,081	2,081		

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

**d) DIVIDENDS DECLARED**

During 2021, the Board of Directors approved the following dividends based on policies outlined in the offering statements of each class of shares:

(000s)	2021				Period
	Number of holders of record	Dividend Rate	\$		
Class A, Series 1	15,647	3.50%	548		September 1, 2020 to August 31, 2021
Class A, Series 2	9,526	2.50%	238		January 1, 2021 to December 31, 2021
Class A, Series 3	34,512	2.50%	863		January 1, 2021 to December 31, 2021
Class A, Series 4	1,362	2.50%	34		January 1, 2021 to December 31, 2021
Class A, Series 5	74,996	4.00%	3,000		January 1, 2021 to December 31, 2021
Class A, Series 6	50,002	4.00%	2,000		January 1, 2021 to December 31, 2021
Class B, Series 1	1,977	0.50%	10		January 1, 2020 to December 31, 2020
Class B, Series 2	251	0.50%	1		January 1, 2020 to December 31, 2020
			6,694		
Income taxes			1,218		
Total dividends paid net of tax			5,476		

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(000s)		2020		
Class	Number of holders of record	Dividend Rate	\$	Period
Class A, Series 1	15,623	3.50%	547	September 1, 2019 to August 31, 2020
Class A, Series 2	9,328	2.50%	233	January 1, 2020 to December 31, 2020
Class A, Series 3	34,538	2.50%	863	January 1, 2020 to December 31, 2020
Class A, Series 4	1,345	2.50%	34	January 1, 2020 to December 31, 2020
Class A, Series 5	75,000	4.00%	3,000	January 1, 2020 to December 31, 2020
Class A, Series 6	50,000	4.00%	2,000	January 1, 2020 to December 31, 2020
Class B, Series 1	2,044	0.85%	17	January 1, 2019 to December 31, 2019
Class B, Series 2	261	0.85%	2	January 1, 2019 to December 31, 2019
			6,696	
Income taxes			1,222	
Total dividends paid net of tax			5,474	

**17. INTEREST INCOME AND INTEREST EXPENSE**

(000s)	31 Dec 2021	31 Dec 2020
Interest income:		
Residential mortgage loans	\$87,434	\$100,780
Commercial loans	45,176	52,651
Personal loans	10,244	11,400
Swap agreements	929	2,371
	<b>\$143,783</b>	<b>\$167,202</b>
Interest expense:		
Mortgage securitization cost of funds	\$24,986	\$27,140
Term deposits	16,117	28,430
Registered plans	13,024	17,978
Demand deposits	7,383	10,698
Leases (note 14)	822	899
Borrowings	20	1,605
	<b>\$62,352</b>	<b>\$86,750</b>

\$Nil interest income was recorded on Stage 3 loans for the years ended December 31, 2021 and 2020, as they were 100% provisioned.

**18. INVESTMENT INCOME**

(000s)	31 Dec 2021	31 Dec 2020
Income on financial assets FVOCI	\$9,698	\$24,618
Income on financial assets FVTPL	4,060	186
Income on financial assets amortized cost	61	181
	<b>\$13,819</b>	<b>\$24,985</b>

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**19. SECURITIZATION (LOSS) INCOME**

<b>(000s)</b>	<b>31 Dec 2021</b>	<b>31 Dec 2020</b>
Net change in gain (loss) on bond forwards	<b>\$4,258</b>	(35,738)
Servicing income	<b>657</b>	762
Net gain on sale of mortgages	<b>214</b>	22,417
Net change in fair value of loans and advances and mortgage securitization liabilities	<b>(20,657)</b>	25,312
	<b>(\$15,528)</b>	\$12,753

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.

**20. EMPLOYEE BENEFIT PLANS**

Until March 31, 2006, some employees were eligible to join in the Alterna Savings DB pension plan and the senior executives who participated in the DB pension plan were provided with a SRIP. Both plans provide for pensions based on length of service and career average earnings.

On January 1, 2008, pension benefits for employees participating in Alterna Savings' DB pension plan began to accrue under the DC pension plan and all benefits ceased to accrue under the existing DB pension plan and SRIP. The post-retirement benefits programs were assumed in business combinations and provide certain post-retirement benefits to a closed group of retirees. Existing retirees will continue to receive benefits under the plans in which they had been enrolled. Most employees are eligible to participate in the DC pension plan, which prescribes both employer and employee contributions.

The DB pension plans are registered under the *Income Tax Act* (Canada) and the *Pension Benefits Act, R.S.O. 1990* (Ontario) (the "PBA"). The Board of Directors of Alterna Savings, through various committees, is responsible for the oversight and supervision of the plans. Contributions are made to these separately administered plans.

Every three years, the Board of Directors reviews the level of funding as required by the PBA. This review consists of asset-liability matching strategy and investment risk management policy as well as minimum funding requirements. The PBA requires Alterna Savings to clear any plan deficit based on the actuarial valuation for funding purposes over a period of five years, if any.

These DB pension plans are exposed to Canada's inflation, interest rate risks and changes in the life expectancy for pensioners.

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*Defined Pension and Benefits Plans*

All defined benefit plans are valued using the projected unit-credit method to determine the present value of the defined benefit obligation and the related service costs. Under this method, the determination is based on actuarial calculations which include assumptions about demographics, salary increases and interest and inflation rates.

The assets and accrued benefit obligation of the DB pension plans and the post-retirement benefits program were measured as at December 31, 2021, and are detailed as follows:

<b>(000s)</b>			<b>31 Dec 2021</b>	31 Dec 2020
	<b>Pension</b>	<b>Benefits</b>	<b>Total</b>	Total
Accrued benefit obligation:				
Balance, beginning of year	<b>\$30,646</b>	<b>\$380</b>	<b>\$31,026</b>	\$29,821
Interest cost	<b>719</b>	<b>8</b>	<b>727</b>	900
Re-measurement (gains)/losses				
Actuarial gains and losses from changes in financial assumptions	<b>(1,757)</b>	<b>(17)</b>	<b>(1,774)</b>	1,571
Benefits paid	<b>(1,533)</b>	<b>(25)</b>	<b>(1,558)</b>	(1,266)
Balance, end of year	<b>\$28,075</b>	<b>\$346</b>	<b>\$28,421</b>	\$31,026
Plans' assets:				
Fair value, beginning of year	<b>\$37,266</b>	<b>\$-</b>	<b>\$37,266</b>	\$35,680
Interest income	<b>880</b>	<b>-</b>	<b>880</b>	1,085
Re-measurement (gains)/losses				
Return on plan assets (excluding amounts included in net interest expense)	<b>1,311</b>	<b>-</b>	<b>1,311</b>	1,745
Employer contributions	<b>-</b>	<b>25</b>	<b>25</b>	22
Benefits paid	<b>(1,533)</b>	<b>(25)</b>	<b>(1,558)</b>	(1,266)
Fair value, end of year	<b>\$37,924</b>	<b>\$-</b>	<b>\$37,924</b>	\$37,266
Over funded (under funded) status of plans	<b>\$9,849</b>	<b>(\$346)</b>	<b>\$9,503</b>	\$6,240
Limit on amount recognized (min. funding obligation/unrecognized plan surplus)	<b>(9,849)</b>	<b>-</b>	<b>(9,849)</b>	(6,620)
Accrued benefit liability	<b>\$-</b>	<b>(\$346)</b>	<b>(\$346)</b>	(\$380)

As at December 31, 2021, the total over funded status of the pension plans was \$9,849,000 (2020 - \$6,620,000), which comprised of the over funded status of the DB pension plan of \$9,330,000 (2020 – \$6,270,000 over funded) and the over funded status of the SRIP of \$519,000 (2020 – \$350,000 over funded).

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

	<b>31 Dec 2021</b>		31 Dec 2020	
	<b>Pension</b>	<b>Benefits</b>	Pension	Benefits
Discount rate for accrued benefit obligation	<b>2.41%</b>	<b>2.30%</b>	3.09%	3.00%
Discount rate for pension expense	<b>2.57%</b>	<b>2.80%</b>	2.14%	2.30%

The health care cost trend rate is expected to be 4.5% in 2022.

A 1% increase in the discount rate would decrease the accrued benefit obligation by \$3,115,000 and a 1% decrease in the discount rate would increase the accrued benefit obligation by \$3,799,000. Changes in health care rates would impact the accrued benefit obligation by a nominal amount. The sensitivity analyses above have been determined based on a method

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that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

As at December 31, 2021, the fair value of the pension plans' assets for each major asset class was as follows:

<b>(000s)</b>	<b>31 Dec 2021</b>	31 Dec 2020
Fixed Income Funds		
Cash equivalents	<b>\$1,067</b>	\$1,790
Bonds	<b>21,101</b>	20,651
	<b>22,168</b>	22,441
Equity Funds:		
Canadian	<b>8,525</b>	7,666
United States	<b>3,405</b>	2,956
Other international	<b>2,068</b>	2,534
	<b>13,998</b>	13,156
Other Funds:		
Real Estate	<b>1,758</b>	1,669
	<b>\$37,924</b>	\$37,266

The fair values of the above equity and debt instruments are classified as Level 1 or Level 2 financial instruments.

Amounts recognized in comprehensive income in respect of these defined benefit plans are as follows:

<b>(000s)</b>	<b>31 Dec 2021</b>	31 Dec 2020
Net interest expense	<b>\$8</b>	\$11
Components of defined benefit costs recognized in the consolidated statements of income	<b>\$8</b>	\$11
<b>(000s)</b>	<b>31 Dec 2021</b>	31 Dec 2020
Re-measurement on the net defined benefit liability:		
Return on plan assets (excluding amounts included in net interest expense)	<b>\$1,311</b>	\$1,745
Actuarial gains and losses from experience adjustments	-	931
Actuarial gains and losses from changes in demographic assumptions	-	36
Actuarial gains and losses from changes in financial assumptions	<b>1,774</b>	(2,537)
Limit on amount recognized (min. funding obligation/unrecognized plan surplus)	<b>(3,068)</b>	(203)
Components of defined benefit recovery (cost) recognized in other comprehensive income	<b>17</b>	(\$28)

The next actuarial valuation for funding purposes of the DB pension plan is to be performed as at December 31, 2022 (the most recent valuation was performed as at December 31, 2019). There are no required funding valuation dates for the SRIP or the post-retirement benefits program as they are not registered plans. The most recent valuation prepared for accounting purposes was December 31, 2019 for the DB pension plan, January 1, 2020 for the SRIP and August 31, 2019 for the post-retirement benefits program.

Alterna Savings expects to contribute approximately \$25,000 to its defined benefit plan in 2022. The average duration of the defined benefit plan obligation at the end of the reporting period is 12.6 years for the DB pension plan, 8.8 years for the SRIP and 10.4 years for the post-retirement benefits program.

*Defined Contribution Pension Plan*

The pension expense for the DC pension plan for the year ended December 31, 2021 was \$1,449,000 (2020 – \$1,425,000).

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*Total Cash Payments*

Total cash payments for employee benefit plans for 2021, consisting of cash contributed by Alterna Savings to its funded DB pension plans, cash payments directly to beneficiaries for its unfunded post-retirement benefits program and cash contributed to its DC pension plan were \$1,474,000 (2020 – \$1,447,000).

**21. INCOME TAXES**

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

<b>(000s)</b>	<b>Consolidated balance sheets</b>	
	<b>31 Dec 2021</b>	<b>31 Dec 2020</b>
Lease liabilities	\$649	\$620
Derivatives	364	4,013
Loss allowance	296	1,061
Deferred pension liability	63	30
Investments	-	124
Property and equipment	(1,311)	(1,552)
Net deferred income tax asset	\$61	\$4,296

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

<b>(000s)</b>	<b>31 Dec 2021</b>		<b>31 Dec 2020</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Expected tax provision at combined federal and provincial rates	4,565	27%	\$8,957	27%
Additional credit for Credit Unions	(444)	(3%)	(3,339)	(10%)
Deferred income tax rate differential	(1,137)	(7%)	1,218	3%
Permanent differences	28	-%	22	-%
Other – net	671	4%	(473)	(1%)
	<b>\$3,683</b>	<b>21%</b>	<b>\$6,385</b>	<b>19%</b>

The components of income tax expense for the years ended December 31, 2021 and 2020 are as follows:

<b>(000s)</b>	<b>31 Dec 2021</b>	<b>31 Dec 2020</b>
Current income tax	(\$674)	\$11,308
Deferred income tax	4,357	(4,923)
Income tax expense reported in the consolidated statements of income	<b>\$3,683</b>	<b>\$6,385</b>

The income tax related to items charged or credited to other comprehensive (loss) income during the year is as follows:

<b>(000s)</b>	<b>31 Dec 2021</b>	<b>31 Dec 2020</b>
Change in unrealized gains and losses on FVOCI financial assets	(\$2,584)	\$444
Change in gains and losses on derivatives designated as cash flow hedges	(268)	412
Defined benefit plan – actuarial losses	3	2
	<b>(\$2,849)</b>	<b>\$858</b>

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

(000s)	31 Dec 2021	31 Dec 2020
Current income tax	(\$2,727)	\$569
Deferred income tax	(122)	289
	(\$2,849)	\$858

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

**22. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The amounts set out in the table below represent the estimated fair values of the financial instruments of Alterna Savings for each classification of financial instrument, including the fair values of loans calculated before the loss allowance, using the valuation methods and assumptions described below.

(000s)	31 Dec 2021		31 Dec 2020	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets:</b>				
FVOCI:				
Investments	\$715,397	\$715,397	\$452,510	\$452,510
FVTPL:				
Investments	12,412	12,412	5,178	5,178
Derivative financial instruments				
- interest rate swaps	2,909	2,909	3,136	3,136
- bond forwards	1,686	1,686	3,576	3,576
- purchased options	1,878	1,878	1,009	1,009
Loans and advances				
- residential mortgage loans	921,040	921,040	1,239,298	1,239,298
- commercial loans	54,146	54,146	84,883	84,883
Amortized cost:				
Cash and cash equivalents	932,056	932,056	1,383,859	1,383,859
Loans and advances				
- personal loans	234,471	235,119	284,711	286,110
- residential mortgage loans	2,677,404	2,726,346	2,034,753	2,144,234
- commercial loans	975,186	975,187	1,073,651	1,104,129
Total	\$6,528,585	\$6,578,176	\$6,566,564	\$6,707,922
<b>Financial liabilities:</b>				
Other liabilities:				
Deposits				
- demand deposits	\$3,081,669	\$3,081,669	\$2,737,800	\$2,737,800
- term deposits	950,951	950,062	1,273,223	1,286,132
- registered plans	1,168,469	1,167,621	1,220,689	1,231,134
Mortgage securitization liabilities	484,206	489,744	669,573	679,483
Borrowings	255,884	255,884	141,494	141,494
FVTPL:				
Mortgage securitization liabilities	258,526	258,526	123,034	123,034
Derivative financial instruments				
- interest rate swaps	145	145	1,044	1,044
- bond forwards	4,031	4,031	20,033	20,033
- embedded options	1,870	1,870	1,002	1,002
Total	\$6,205,751	\$6,209,552	\$6,187,892	\$6,221,156

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

(i) Fair values of 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 Savings enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are interest rate swaps and foreign currency forwards. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. As at December 31, 2021, 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 the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognized at fair value.

(iii) Purchased and embedded options are measured similarly to the interest rate swaps. However, as these contracts are not collateralized, Alterna Savings 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, 2021, Alterna Savings assessed these risks to be insignificant.

(iv) 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.

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**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, 2021 and 2020:

<b>31 Dec 2021 (000s)</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets measured at fair value:</b>				
Financial investments FVTPL	\$ -	\$ -	\$12,412	\$12,412
Financial investments FVOCI	-	715,397	-	715,397
Derivative financial instruments				
- interest rate swaps	-	2,909	-	2,909
- bond forwards	-	1,686	-	1,686
- purchased options	-	1,878	-	1,878
Loans and advances				
- residential mortgages	-	921,040	-	921,040
- commercial mortgages	-	54,146	-	54,146
<b>Assets for which fair values are disclosed:</b>				
Loans and advances				
- personal loans	-	-	235,119	235,119
- residential mortgage loans	-	-	2,726,346	2,726,346
- commercial loans	-	-	975,187	975,187
<b>Liabilities measured at fair value:</b>				
Mortgage securitization liabilities	-	258,526	-	258,526
Derivative financial instruments				
- interest rate swaps	-	145	-	145
- bond forwards	-	4,031	-	4,031
- embedded options	-	1,870	-	1,870
<b>Liabilities for which fair values are disclosed:</b>				
Deposits				
- demand deposits	-	-	3,081,669	3,081,669
- term deposits	-	-	950,062	950,062
- registered plans	-	-	1,167,621	1,167,621
Mortgage securitization liabilities	-	-	489,744	489,744

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31 Dec 2020 (000s)	Level 1	Level 2	Level 3	Total
<b>Assets measured at fair value:</b>				
Financial investments FVTPL	\$ -	\$ -	\$5,178	\$5,178
Financial investments FVOCI	-	452,510	-	452,510
Derivative financial instruments				
- interest rate swaps	-	3,136	-	3,136
- bond forwards	-	3,576	-	3,576
- purchased options	-	1,009	-	1,009
Loans and advances				
- residential mortgage loans	-	1,239,298	-	1,239,298
- commercial loans	-	84,883	-	84,883
<b>Assets for which fair values are disclosed:</b>				
Loans and advances				
- personal loans	-	-	286,110	286,110
- residential mortgage loans	-	-	2,144,234	2,144,234
- commercial loans	-	-	1,104,129	1,104,129
<b>Liabilities measured at fair value:</b>				
Mortgage securitization liabilities <sup>(1)</sup>	-	123,034	-	123,034
Derivative financial instruments				
- interest rate swaps	-	1,044	-	1,044
- bond forwards	-	20,033	-	20,033
- embedded options	-	1,002	-	1,002
<b>Liabilities for which fair values are disclosed:</b>				
Deposits				
- demand deposits	-	-	2,737,800	2,737,800
- term deposits	-	-	1,286,132	1,286,132
- registered plans	-	-	1,231,134	1,231,134
Mortgage securitization liabilities	-	-	679,483	679,483

<sup>(1)</sup> Reclassified from mortgage securitization liabilities at amortized cost.

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2021 and 2020.

The table below presents the changes in fair value of Level 3 financial assets and liabilities for the years ended December 31, 2021 and 2020. These instruments are measured at fair value utilizing non-observable market inputs. The total net gains included in investment income in the consolidated statements of income, on financial instruments for which fair value was estimated using a valuation technique requiring non-observable market inputs was \$4,059,000 (2020 – \$187,000). Alterna Savings has committed to contribute \$10,000,000 of capital for the private equity fund investment (see note 6). The unfunded commitment at December 31, 2021 is \$2,183,000 (2020 - \$5,548,000).

31 Dec 2020 (000s)	Net realized/unrealized gains included in						Closing balance	Unrealized gains <sup>(1)</sup>
	Opening balance	Net income	OCI	Purchases	Settlements			
<b>Financial investments FVTPL – Private equity fund</b>	<b>\$5,178</b>	<b>\$4,059</b>	<b>\$-</b>	<b>\$3,175</b>	<b>\$-</b>	<b>\$12,412</b>	<b>\$5,251</b>	
	<b>\$5,178</b>	<b>\$4,059</b>	<b>\$-</b>	<b>\$3,175</b>	<b>\$</b>	<b>\$12,412</b>	<b>\$5,251</b>	

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31 Dec 2020	Net realized/unrealized gains included in					Closing balance	Unrealized gains <sup>(1)</sup>
	Opening balance	Net income	OCI	Purchases	Settlements		
(000s)							
Financial investments	\$3,851	\$187	\$-	\$1,140	\$-	\$5,178	\$725
FVTPL – Private equity fund							
	\$3,851	\$187	\$-	\$1,140	\$-	\$5,178	\$725

<sup>(1)</sup> Changes in unrealized gains included in earnings for instruments respectively held as at December 31, 2021 and 2020.

There were no transfers in or out of Level 3 during the years ended December 31, 2021 and 2020.

The table below sets out information about significant unobservable inputs used as at December 31, 2021 in measuring financial instruments categorized as Level 3 in the fair value hierarchy:

Description	Fair value as at December 31, 2021	Valuation technique	Unobservable input	Range
Private equity fund investment	\$12,412	Net asset value <sup>(1)</sup>	-	-

<sup>(1)</sup> Alterna Savings has determined that the reported net asset value represents the fair value at the end of the reporting period.

**23. DERIVATIVE FINANCIAL INSTRUMENTS**

The tables below provide a summary of Alterna Savings' derivative portfolio, their notional values and fair values as at December 31, 2021 and 2020:

(000s)	31 Dec 2021				
	Maturities of derivatives (Notional amounts)			Fair Value	
	Within 1 Year	1 to 5 Years	Total	Derivative Instrument Assets	Derivative Instrument Liabilities
<b>Interest rate contracts</b>					
Swaps <sup>(1)</sup>	\$85,816	\$118,559	\$204,375	\$2,909	\$145
Bond forwards	232,050	-	232,050	1,686	4,031
	317,866	118,559	436,425	4,595	4,176
<b>Other derivatives</b>					
Index-linked call options	2,998	16,510	19,508	1,878	1,870
	2,998	16,510	19,508	1,878	1,870
	\$320,864	\$135,069	\$455,933	\$6,473	\$6,046

<sup>(1)</sup> Of which \$1,632 are derivative instrument assets designated as cash flow hedges. The notional amounts are \$80,000 with a maturity within 1 year. \$20 are derivative instrument assets designated as fair value hedges and \$145 are derivative instrument liabilities designated as fair value hedges. The notional amounts are \$19,375 with \$816 maturing within 1 year and \$18,559 maturing in 1 to 5 years.

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(000s)	31 Dec 2020				
	Maturities of derivatives (Notional amounts)			Fair Value	
	Within 1 Year	1 to 5 Years	Total	Derivative Instrument Assets	Derivative Instrument Liabilities
<b>Interest rate contracts</b>					
Swaps <sup>(1)</sup>	\$74,210	\$105,178	\$179,388	\$3,136	\$1,044
Bond forwards	669,200	-	669,200	3,576	20,033
	743,410	105,178	848,588	6,712	21,077
<b>Other derivatives</b>					
Index-linked call options	4,100	16,380	20,480	1,009	1,002
	4,100	16,380	20,480	1,009	1,002
	\$747,510	\$121,558	\$869,068	\$7,721	\$22,079

<sup>(1)</sup> Of which \$2,395 are derivative instrument assets designated as cash flow hedges. The notional amounts are \$95,000 with \$15,000 maturing within 1 year and \$80,000 maturing in 1 to 5 years. \$1,044 are derivative instrument liabilities designated as fair value hedges. The notional amounts are \$29,388 with \$9,210 maturing within 1 year and \$20,178 maturing in 1 to 5 years.

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

**a) INTEREST RATE CONTRACTS**

**(i) Swaps**

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

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 Savings 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.

**(ii) Bond forwards**

As part of its interest rate risk management process, Alterna Savings utilizes bond forwards to maintain its interest rate exposure on forecasted debt issuance associated with securitization activity. These hedging relationships have not been designated as cash flow hedges.

**b) OTHER DERIVATIVES**

**Index-linked call options**

Alterna Savings has issued \$19,508,000 of indexed term deposits to its members as at December 31, 2021 (2020 – \$20,480,000). 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 Savings uses purchased call options on the above indices with equivalent maturities to offset the exposure associated with these products.

Alterna Savings 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 Savings receives from the counterparties payments equal to the amount that will be paid to the depositors based on the performance of the respective indices.

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**c) DESIGNATED ACCOUNTING HEDGES**

The following table discloses the impact of derivatives designated in hedge accounting relationships and the related hedged items, where appropriate, in the consolidated statements of income and in OCI for the years ended December 31, 2021 and 2020.

(000s)	31 Dec 2021			31 Dec 2020		
	Amounts recognized in OCI	Amounts reclassified from OCI into income	Hedge ineffectiveness recognized in other income	Amounts recognized in OCI	Amounts reclassified from OCI into income	Hedge ineffectiveness recognized in other income
Interest rate contracts						
Cash flow hedges	<b>(\$1,078)</b>	<b>\$149</b>	<b>(\$50)</b>	\$1,672	\$133	(\$22)
Fair value hedges	-	-	17	-	-	(10)
	<b>(\$1,078)</b>	<b>\$149</b>	<b>(\$33)</b>	\$1,672	\$133	(\$32)

**24. CAPITAL MANAGEMENT**

Alterna Savings' (unconsolidated parent entity) capital management objective is to ensure the long-term viability of the entity and the security of member deposits by holding a level of capital deemed sufficient to protect against unanticipated losses and to comply with the capital requirements set out in Act. The Act requires credit unions to maintain minimum regulatory capital, as defined by the Act. Regulatory capital is calculated as a percentage of total assets and of risk-weighted assets. Risk-weighted assets are calculated by applying risk-weighted percentages, as prescribed by the Act, to various asset categories, operational and interest rate risk criteria. The prescribed risk weights are dependent on the degree of risk inherent in the asset.

Tier 1 capital, otherwise known as core capital, is the highest quality. It is comprised of retained earnings, contributed surplus, membership shares and special shares, excluding Class B, Series 1. Tier 1 capital as at December 31, 2021 was \$362,388,000 (2020 – \$348,947,000).

Tier 2 capital, otherwise known as supplementary capital, contributes to the overall strength of a financial institution as a going concern, but is of a lesser quality than Tier 1 capital relative to both permanence and freedom from charges. It is comprised of the Class B, Series 1 special shares and the eligible portion of the stage 1 and stage 2 loan allowances. Tier 2 capital as at December 31, 2021 was \$3,798,000 (2020 – \$8,129,000).

The Act requires credit unions to maintain a minimum capital leverage ratio of 4% and a risk-weighted capital ratio of 8%.

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

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

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

Alterna Savings may not pay dividends on membership shares or special shares if there are reasonable grounds for believing that Alterna Savings is, or would by that payment become, insolvent, or that regulatory liquidity or capital levels would not be met after payment.

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*Capital Summary*

As at December 31, 2021, Alterna Savings (unconsolidated parent entity) was in compliance with the Act and regulations with a capital leverage ratio of 6.37% (2020 – 6.22%) and a risk-weighted capital ratio of 19.07% (2020 – 16.53%).

**25. BUSINESS COMBINATIONS**

On June 1, 2020, Alterna Savings amalgamated with Quinte First Credit Union (“Quinte”) and the results of its operations have been included in the consolidated financial statements since that date. Post-amalgamation, Quinte was rebranded as Alterna Savings and Credit Union Limited.

On December 31, 2020, Alterna Savings amalgamated with Member Savings Credit Union (“Member Savings”) and the results of its operations have been included in the consolidated financial statements since that date. Post-amalgamation, Member Savings was rebranded as Alterna Savings and Credit Union Limited.

Alterna Savings acquired 100% of the net assets of Quinte and Member Savings in a share for share exchange. The consideration transferred to acquire the net assets of Quinte, Member Savings and City Savings was determined by valuing the businesses acquired using the net asset value approach. Under this approach, the net present value of the business is calculated with the resulting fair value allocated to the net assets acquired less shares issued with any remaining fair value allocated to contributed surplus.

(000s)	Quinte - 1 June 2020		Member Savings - 31 Dec 2020	
	Book Value	Fair Value	Book Value	Fair Value
Cash and cash equivalents	\$ 32,573	\$ 32,573	\$ 18,575	\$ 18,575
Investments	25,040	25,040	9,513	9,513
Loans and advances	184,928	186,369	91,402	92,445
Property and equipment	3,951	4,358	82	26
Intangible assets	230	230	-	-
Goodwill	-	396	-	57
Other assets	490	490	216	216
Deposits	(232,317)	(233,818)	(109,861)	(111,002)
Other liabilities	(1,811)	(1,811)	(1,951)	(1,951)
Membership shares	(192)	(192)	(50)	(50)
Net assets	\$ 12,892	\$ 13,635	\$ 7,926	\$ 7,829
Contributed surplus		\$ 13,635		\$ 7,829

The goodwill represents the synergies to be recognized from the amalgamation of credit unions and Alterna Savings. As at December 31, 2021, the total amount of goodwill expected to be deductible for tax purposes for the above acquisitions is \$419,000 (2020 - \$453,000).

The carrying values of cash and cash equivalents and other assets and liabilities approximate their fair value due to their short-term nature.

For variable rate interest loans and deposits that re-price frequently, carrying value is assumed to approximate fair values. Fair value of other loans and deposits is estimated using discounted cash flow techniques based on the contractual repayment of the products. In addition, the fair value of loans is net of a loss allowance of \$760,000 for Quinte and \$155,000 for Member Savings in 2020.

The fair value of property and equipment has been assessed using a combination of acquisition date net book value, considered in certain instances to approximate fair value, and an appraisal based on market information.

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**26. COMMITMENTS AND CONTINGENCIES**

**a) CREDIT INSTRUMENTS**

As at December 31, 2021, the credit instruments approved but not yet disbursed were as follows:

<b>(000s)</b>	<b>Total</b>
Residential mortgage loans	<b>\$23,618</b>
Commercial demand loans	\$-
Commercial mortgage loans	\$-
Lines of credit unfunded	<b>\$726,167</b>

**b) CONTINGENCIES**

In the normal course of operations, Alterna Savings becomes involved in various claims and legal proceedings. While the final outcome with respect to claims and legal proceedings pending as at December 31, 2021 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on Alterna Savings' financial position or results of operations.

**c) GUARANTEES**

*Letters of Credit*

Arising through the normal course of business, Alterna Savings has guaranteed \$55,900,000 (2020 - \$58,262,000) representing the maximum potential amount of future payments it would be required to make under the guarantees, in support of commercial loans to members. Letters of credit are issued at the request of members in order to secure their payment or performance obligations to a third party. These guarantees represent an irrevocable obligation of Alterna Savings to pay the third-party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein. In the event of a call on such commitments, Alterna Savings has recourse against the member. Generally, the terms of these guarantees do not exceed one year. The types and amount of collateral security held by Alterna Savings in support of guarantees and letters of credit are the same as is held for loans. As at December 31, 2021, no liability has been recorded on the consolidated balance sheets as no letters of credit have been called upon. In addition, under IFRS 9 no ECL or fair value has been recorded for the guarantees as these are immaterial.

*Other Indemnification Agreements*

In the normal course of its operations, Alterna Savings provides indemnification agreements to counterparties in certain transactions such as purchase contracts, service agreements and sales of assets. These indemnification agreements require Alterna Savings to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. Alterna Savings also indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their being, or having been, directors or officers. The terms of these indemnification agreements vary based on the contract. The nature of the indemnification agreements prevents Alterna Savings from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, Alterna Savings has not made any significant payments under such indemnification agreements. No amount has been accrued with respect to these indemnification agreements.

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**27. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS**

**a) COMPONENTS OF CASH AND CASH EQUIVALENTS**

<b>(000s)</b>	<b>31 Dec 2021</b>	<b>31 Dec 2020</b>
Deposits with other financial institutions	<b>\$624,939</b>	\$745,490
Marketable securities (original maturities less than 90 days)	<b>294,378</b>	254,501
Cash on hand	<b>12,739</b>	12,908
Liquidity reserve (original maturities less than 90 days)	-	340,002
	<b>\$932,056</b>	<b>\$1,352,901</b>

**b) CASH FLOWS PRESENTED ON A NET BASIS**

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

**28. RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one party has the ability to directly or indirectly control the other party or exercise significant influence over the other party in making financial or operational decisions. Alterna Savings' related parties include key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by, or for which significant voting power is held by key management personnel or their close family members.

**a) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL**

Key management personnel ("KMP") are those persons having authority and responsibility for planning, directing and controlling the activities of the credit union, directly or indirectly, including any director (whether executive or otherwise) of that entity. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Alterna Savings considers the members of its Board and the members of 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 Senior Vice-President, Region Head and Vice-President.

**(i) Key management personnel compensation**

The aggregate compensation of KMP during the year comprising amounts paid or payable or provided for was made up of short-term employee benefits of \$4,654,000 (2020 - \$4,627,000).

**(ii) Loans to KMP**

There are no loans that are impaired in relation to the loan balances with KMP. Loans to KMP consist mainly of residential mortgages as well as personal loans and personal lines of credit.

<b>(000s)</b>	<b>31 Dec 2021</b>	<b>31 Dec 2020</b>
<b>(1) Aggregate value of loans outstanding as at consolidated balance sheet dates</b>	<b>\$3,250</b>	\$3,885
<b>(2) Total value of personal lines of credit facilities as at consolidated balance sheet dates</b>	<b>1,506</b>	1,656
Less: Amounts drawn down and included in loan values and included in (1)	<b>(458)</b>	(466)
<b>Net balance available</b>	<b>\$4,298</b>	<b>\$5,075</b>
<b>Aggregate value of loans disbursed during the year:</b>		
Residential mortgages	<b>\$450</b>	\$137
Personal loans	<b>30</b>	-
<b>Total</b>	<b>\$480</b>	<b>\$137</b>

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**(iii) Deposits from KMP**

<b>(000s)</b>	<b>31 Dec 2021</b>	<b>31 Dec 2020</b>
Total value of demand, term and registered plan deposits from KMP	<b>\$4,483</b>	\$4,247
Total amount of interest paid on deposits to KMP	<b>47</b>	34

**b) OTHER RESTRICTED PARTY DISCLOSURES**

Alterna Savings also employs the definition of restricted party contained in section 75 of Regulation 237/09 of the Act. A restricted party includes a person who is, or has been within the preceding 12 months, a director, officer, or any corporation in which the person owns more than 10% of the voting shares, their spouse, their dependent relatives who live in the same household as the person, and any corporation controlled by such spouse or dependent relative.

**(i) Loans**

Loans to officers consist mainly of residential mortgages offered at preferred rates as well as personal loans and personal lines of credit at market rates less a discount based on the type and risk of the loan. Loans to other restricted parties are granted under market conditions for similar risks.

At the end of the year, the total amount of loans related to restricted parties, as defined, was approximately \$3,250,000 (2020 – \$3,885,000). There was approximately \$54,000 (2020 – \$80,000) in interest earned for the year which, is recorded under interest income on the consolidated statements of income.

**(ii) Expenses Relative to the Board of Directors**

The Directors of Alterna Savings and Alterna Bank are remunerated at rates to be fixed annually at the beginning of each year by their respective Boards, and are also entitled to be paid their travelling, director training and other expenses properly incurred by them in connection with the affairs of Alterna Savings and Alterna Bank.

During the year, remuneration paid to Directors of Alterna Savings and Alterna Bank amounted to \$392,000 (2020 – \$388,000) and other expenses incurred totalled \$103,000 (2020 – \$141,000). As at December 31, 2021, Alterna Savings' Board consisted of 9 Directors (2020 – 9 Directors) and Alterna Bank's Board consisted of 6 Directors (2020 – 6 Directors).

**(iii) Executive Compensation**

Alterna Savings manages executive compensation in accordance with policies which are reviewed and approved annually by the Board. In accordance with these policies, total cash compensation is targeted to be at the 50<sup>th</sup> percentile of similar positions in credit unions and banks in geographical markets within which Alterna Savings operates.

In reviewing the executive compensation structure on an annual basis, the Board considers market expectations and projections of changes for comparable positions using, where available, independent, competent and relevant sources.

The Act requires disclosure of the remuneration paid to the five highest-paid officers and employees of the credit union where remuneration paid during the year exceeded \$150,000. The individuals and their respective remuneration (salary, bonus, benefits) included Robert Paterson, President and Chief Executive Officer (\$525,000, \$525,000, \$195,000), Bill Boni, SVP and Chief Financial Officer (\$330,000, \$158,000, \$81,000), Mark Cauchi, SVP and Chief Information Officer (\$294,000, \$110,000, \$41,000), José Gallant, SVP and Chief Administrative Officer (\$263,000, \$101,000, \$39,000) and Brian Lawson SVP, SME and Member Experience NCR (\$212,000, \$77,000, \$36,000).

All decisions with respect to base pay, annual increases and short-term incentive award (bonus) payments for individuals reporting directly to the President & CEO are reviewed in advance by the Governance Committee of the Board. Further, all decisions with respect to base pay, annual increases and short-term incentive award payments for the President & CEO must receive prior approval by the Board.

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**29. SELECTED DISCLOSURES**

**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, 2021 and 2020.

(000s)	As at 31 Dec 2021			As at 31 Dec 2020		
	Within 1 Year	After 1 year	Total	Within 1 Year	After 1 year	Total
<b>Assets</b>						
Cash and cash equivalents	\$ 932,056	\$ -	\$ 932,056	\$ 1,352,901	\$ -	\$ 1,352,901
Investments	231,807	496,002	727,809	193,191	264,497	457,688
Personal loans	215,644	18,827	234,471	258,709	26,002	284,711
Residential mortgages loans	1,075,077	2,523,367	3,598,444	1,022,914	2,251,137	3,274,051
Commercial loans	437,988	591,344	1,029,332	487,809	670,725	1,158,534
Loss allowance	(4,339)	-	(4,339)	(9,580)	-	(9,580)
Property and equipment	-	35,617	35,617	-	38,319	38,319
Intangible assets	-	14,547	14,547	-	14,155	14,155
Derivative financial instruments	3,391	3,082	6,473	4,345	3,376	7,721
Income tax receivable	15,216	-	15,216	-	-	-
Deferred income tax asset	-	61	61	-	4,296	4,296
Other assets	111,879	-	111,879	120,095	-	120,095
<b>Total assets</b>	<b>\$ 3,018,719</b>	<b>\$ 3,682,847</b>	<b>\$ 6,701,566</b>	<b>\$ 3,430,384</b>	<b>\$ 3,272,507</b>	<b>\$ 6,702,891</b>
<b>Liabilities</b>						
Demand deposits	\$ 3,081,669	-	\$ 3,081,669	\$ 2,737,800	\$ -	\$ 2,737,800
Term deposits	713,597	237,354	950,951	947,642	325,581	1,273,223
Registered plans	922,434	246,035	1,168,469	883,143	337,546	1,220,689
Borrowings	255,884	-	255,884	141,494	-	141,494
Mortgage securitization liabilities	276,975	465,757	742,732	5,438	787,169	792,607
Derivative financial instruments	4,609	1,437	6,046	20,546	1,533	22,079
Income tax payable	-	-	-	7,670	-	7,670
Other liabilities	42,502	16,704	59,206	47,807	19,135	66,942
Membership shares	-	2,081	2,081	-	2,110	2,110
<b>Total liabilities</b>	<b>\$ 5,297,670</b>	<b>\$ 969,368</b>	<b>\$ 6,267,038</b>	<b>\$ 4,791,540</b>	<b>\$ 1,473,074</b>	<b>\$ 6,264,614</b>
<b>Net</b>	<b>\$ (2,278,951)</b>	<b>\$ 2,713,479</b>	<b>\$ 434,528</b>	<b>\$ (1,361,156)</b>	<b>\$ 1,799,433</b>	<b>\$ 438,277</b>

**30. COMPARATIVE AMOUNTS**

Alterna Savings revised the comparative period consolidated financial statements and reclassified restricted cash amounting to \$30,958,000 from cash and cash equivalents to other assets on the consolidated balance sheet. As explained in note 9, restricted cash consists of deposits held with other financial institutions that are not freely accessible to Alterna Savings under the terms and conditions of the governing agreements. The comparative consolidated statement of cash flows has been updated accordingly which resulted in a decrease in cash flows from operating activities and net changes in cash and cash equivalents by \$17,942,000 with a corresponding decrease in cash and cash equivalents at the beginning and end of the year by \$13,016,000 and \$30,958,000 respectively. The revision had no impact on the comparative consolidated income statement.

Alterna Savings also revised note 22 for a reclassification of the presentation of mortgage securitization liabilities in the comparative period. The reclassification did not impact the mortgage securitization liabilities reported on the consolidated balance sheet in the comparative period.