Consolidated Financial Statements of

ALTERNA SAVINGS

December 31, 2010

INDEPENDENT AUDITORS' REPORT

To the Members of
Alterna Savings and Credit Union Limited:

We have audited the accompanying consolidated financial statements of Alterna Savings and Credit Union Limited ("Alterna Savings"), which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated statements of income, comprehensive income, changes in members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alterna Savings as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Ottawa, Canada
March 10, 2011

ALTERNA SAVINGS
Consolidated Balance Sheet (in thousands of dollars)
As at December 31

		2010		2009
ASSETS				
Cash and cash equivalents	$	81,933	$	166,222
Investments (note 3)		232,560		165,393
Loans, net of allowance for impaired loans (notes 5 and 6)		1,812,897		1,727,649
Property and equipment (note 8)		10,898		9,736
Intangible assets (note 9)		4,058		5,926
Derivative financial instruments (note 23)		7,300		8,736
Future income tax asset (note 20)		121		-
Other assets (note 10)		17,751		15,557
	$	2,167,518	$	2,099,219
LIABILITIES AND MEMBERS' EQUITY				
Liabilities:				
Deposits (note 11)	$	1,997,139	$	1,904,609
Borrowings (note 12)		-		30,000
Future income tax liability (note 20)		-		719
Derivative financial instruments (note 23)		3,503		4,732
Other liabilities (note 13)		32,524		29,016
Membership shares (note 15)		1,578		1,779
		2,034,744		1,970,855
Members' equity:				
Special shares (note 15)		23,960		24,019
Contributed surplus		19,282		19,282
Retained earnings		92,525		89,148
Accumulated other comprehensive loss		(2,993)		(4,085)
		132,774		128,364
	$	2,167,518	$	2,099,219

Commitments and contingencies (note 25)

On behalf of the Board:

Richard Neville
Director

Kevin Lindsey
Director

(See accompanying notes to the consolidated financial statements)

ALTERNA SAVINGS
Consolidated Statement of Income (in thousands of dollars)
Year ended December 31

	2010	2009
Interest income (note 16)	**$ 90,115**	$ 88,926
Investment income	**3,211**	3,665
	93,326	92,591
Interest expense (note 16)	**34,482**	40,018
Net interest income	**58,844**	52,573
Loan costs	**1,313**	1,362
	57,531	51,211
Other income (note 17)	**12,852**	16,690
	70,383	67,901
Operating expenses (note 18)	**62,777**	62,485
Operating income	**7,606**	5,416
Unrealized losses on financial instruments	**(1,702)**	(1,476)
Income before income taxes	**5,904**	3,940
Provision for (recovery of) income taxes (note 20)		
Current	**2,642**	1,016
Future	**(1,164)**	(1,214)
	1,478	(198)
Net income	**$ 4,426**	$ 4,138

(See accompanying notes to the consolidated financial statements)

ALTERNA SAVINGS
Consolidated Statement of Comprehensive Income (in thousands of dollars)
Year ended December 31

	2010	2009
Net income	**$ 4,426**	$ 4,138
Other comprehensive (loss) income, net of tax:		
Change in unrealized gains and losses on available-for-sale securities [1]	**(1,312)**	(281)
Change in gains and losses on derivatives designated as cash flow hedges [2]	**1,935**	(4,488)
Net losses on derivatives designated as cash flow hedges transferred to net income [3]	**469**	756
	1,092	(4,013)
Comprehensive income	**$ 5,518**	$ 125

[1] Net of income tax recovery of $197 (2009 - recovery of $28)
[2] Net of income tax expense of $291 (2009 - recovery of $723)
[3] Net of income tax expense of $71 (2009 - expense of $121)

(See accompanying notes to the consolidated financial statements)

ALTERNA SAVINGS
Consolidated Statement of Changes in Members' Equity (in thousands of dollars)
Year ended December 31

	2010	2009
Special shares:		
Balance, beginning of year	**$ 24,019**	$ 24,545
Net shares redeemed (note 15)	**(59)**	(526)
Balance, end of year	**23,960**	24,019
Contributed surplus:		
Balance, beginning of year	**19,282**	19,282
Balance, end of year	**19,282**	19,282
Retained earnings, net of tax:		
Balance at beginning of year, as previously reported	**89,148**	86,459
Transitional adjustment on adoption of new accounting policies	**-**	(411)
Balance at beginning of year, as restated	**89,148**	86,048
Net income	**4,426**	4,138
Dividend on special shares (note 15)	**(1,049)**	(1,035)
Issuance costs	**-**	(3)
Balance, end of year	**92,525**	89,148
Accumulated other comprehensive income (loss), net of tax:		
Balance at beginning of year	**(4,085)**	(72)
Other comprehensive income (loss)	**1,092**	(4,013)
Balance, end of year	**(2,993)**	(4,085)
Members' equity	**$ 132,774**	$ 128,364

(See accompanying notes to the consolidated financial statements)

ALTERNA SAVINGS
Consolidated Statement of Cash Flows (in thousands of dollars)
Year Ended December 31

	2010	**2009**
Operating activities:		
Net income	**$ 4,426**	$ 4,138
Add (deduct) non-cash items:		
Loss on disposal of property and equipment	**-**	63
Loss on disposal of intangible assets	**87**	25
Change in fair value of investments	**(1,903)**	(1,731)
Gains on securitization of mortgages	**-**	(4,170)
Amortization of property and equipment	**2,611**	3,333
Amortization of intangible assets	**2,091**	2,274
Net gain on sale of investments	**-**	(18)
Amortization of deferred charges (income)	**(128)**	328
Allowance charged to operations	**820**	908
Future income taxes	**(1,006)**	(852)
(Increase) decrease in interest receivable	**(880)**	537
Change in assets relating to derivative financial instruments	**5,177**	3,356
Decrease in interest payable	**(966)**	(892)
Change in liabilities relating to derivative financial instruments	**(1,229)**	(519)
Other items, net	**(447)**	(463)
Cash provided by operating activities	**8,653**	6,317
Investing activities:		
Proceeds from maturity and sale of investments	**136,106**	148,231
Purchase of investments	**(202,878)**	(154,148)
Proceeds from securitization of mortgages	**-**	68,842
Net increase in loans	**(85,362)**	(84,613)
Acquisition of property and equipment	**(1,184)**	(280)
Acquisition of intangible assets	**(310)**	(505)
Cash used in investing activities	**(153,628)**	(22,473)
Financing activities:		
Net increase in deposits	**92,530**	129,722
Net decrease in membership shares	**(201)**	(119)
Net decrease in special shares	**(59)**	(526)
Issuance costs	**-**	(3)
Dividends on special shares	**(1,049)**	(1,035)
Capital lease repayments	**(535)**	(794)
Net decrease in borrowings	**(30,000)**	(4,700)
Cash provided by financing activities	**60,686**	122,545
(Decrease) increase in cash and cash equivalents during the year	**(84,289)**	106,389
Cash and cash equivalents, beginning of year	**166,222**	59,833
Cash and cash equivalents, end of year	**$ 81,933**	$ 166,222
Supplemental information:		
Interest paid	**$ 35,448**	$ 40,910
Income taxes paid	**$ 568**	$ 2,246
Property and equipment acquired through capital leases	**$ 2,589**	$ 400

(See accompanying notes to the consolidated financial statements)

1. NATURE OF OPERATIONS

Alterna Savings is a credit union incorporated 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"). Qualifying member deposits are insured by the Deposit Insurance Corporation of Ontario ("DICO").

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of financial statements in accordance with GAAP requires management to make assumptions that affect the estimates of reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant accounting policies are as follows:

a) Changes in Accounting Policies
There were no changes in accounting policies during the year.

b) Basis of Consolidation
The consolidated financial statements include the accounts and results of operations of CS Alterna Bank ("Alterna Bank"), a wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated on consolidation.

c) 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.

d) Financial Instruments
At initial recognition, all financial assets and liabilities are required to be classified based on management's intention as held-for-trading ("HFT"), designated at fair value ("FVO"), available-for-sale ("AFS"), held-to-maturity ("HTM"), loans and receivables or other financial liabilities. In addition, the standards require that all financial instruments, including all derivatives, be measured at fair value with the exception of loans and receivables, HTM assets, other financial liabilities, AFS equities and derivatives linked to equity instruments that do not have quoted market values in an active market. The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are generally based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are estimated using valuation techniques and models. Transaction costs related to HFT are expensed as incurred. Transaction costs related to AFS and HTM securities and fees and costs related to loans and receivables are capitalized and amortized over the expected life of the instrument using the effective interest rate method. Settlement date accounting is used for all securities.

Classification of financial instruments
Held-for-trading financial instruments are financial assets and liabilities held for trading activities and are measured at fair value at the balance sheet date. Gains and losses realized on disposition and unrealized gains and losses from market fluctuations are reported in investment income.

Available-for-sale financial assets are those non-derivative financial assets that are designated as AFS, or that are not classified as loans and receivables, HTM or HFT. Except for equities that do not have a quoted market value in an active market, AFS securities are carried at fair value whereby the unrealized gains and losses are included in "Accumulated other comprehensive income ("AOCI")" as discussed below until sale or other-than-temporary impairment when the cumulative gain or loss is transferred to the consolidated statement of income. AFS assets are written down to fair value through income whenever it is necessary to reflect an other-than-temporary impairment. Equities that do not have quoted market values in an active market are carried at cost. Realized gains and losses on sale as well as income from these securities are included in investment income.

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, other than loans or receivables that an entity has the positive intention and ability to hold to maturity. These financial assets are accounted for at amortized cost. Alterna Savings has not designated any financial assets as HTM.

Loans and receivables are accounted for at amortized cost using the effective interest rate method.

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

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 sheet. Derivatives may be embedded in other financial instruments. Derivatives embedded in other financial instruments are valued as separate derivatives when their economic characteristics and risks are not considered to be closely related to the host contract. These embedded derivatives are classified as part of the host instrument and measured at fair value with changes therein recognized in the consolidated statement of income. The only embedded derivatives are the options embedded in Alterna Savings' indexed term deposits offered to members (note 23b).

Hedges
Alterna Savings uses derivative financial instruments such as swaps and options in its management of interest rate exposure. Derivative financial instruments are not used for trading or speculative purposes. Alterna Savings applies hedge accounting for derivative financial instruments that meet the criteria specified in Section 3865 *Hedges.* 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.

Cash flow hedges
Alterna Savings designates cash flow hedges as part of risk management strategies that use derivatives to mitigate the risk from variable cash flows by converting certain variable rate financial instruments to fixed rate financial instruments. The effective portion of the change in fair value of the derivative instrument is offset through "Other comprehensive income ("OCI") as discussed below until the variability in cash flows being hedged is recognized in earnings in future accounting periods, at which time the amount that was in the AOCI is reclassified into income. The ineffective portion of the change in fair value of the hedging derivative is recognized in other income 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 AOCI is recognized in income over the remaining term of the hedged item.

Comprehensive Income
The presentation of accumulated other comprehensive income ("AOCI") is required as a separate component of members' equity (net of tax) on the consolidated balance sheet. AOCI includes net unrealized gains and losses on AFS securities. AOCI also includes the effective portion of gains and losses on derivative financial instruments designated as cash flow hedges.

e) Loans
Personal loans, residential mortgage loans and commercial loans are presented at principal amounts less an allowance for impaired loans.

Loan Interest
Interest income from loans is recorded on an accrual basis except for loans classified as impaired. When a loan is classified as impaired, no further interest income is recognized and all accrued but uncollected interest is provided for in the allowance for impaired loans. Until such time as collectibility is assured, subsequent interest receipts are applied to reduce the recorded investment in the loan.

Loan Fees (receipts and charges)
Commercial lending application fees and mortgage brokerage and incentive fees are deferred and amortized to interest income over the term of the loan using the effective interest rate method. Legal fees and appraisal fees are expensed as incurred. Mortgage prepayment penalties are recorded in income when charged. The net unamortized fees are included in the related loan balance in accordance with CICA's Accounting Guideline 4 (AcG-4), *Fees and Costs Associated with Lending Activities.*

Impaired Loans
Alterna Savings classifies loans as impaired when, in management's opinion, there is no longer reasonable assurance that the full amount of principal and interest will be collected. Generally loans on which repayment of principal or payment of interest is contractually 90 days past due are automatically considered impaired unless they are fully secured and in the process of collection. Notwithstanding management's assertion of collectibility, such loans are considered impaired if payments are 180 days in arrears.

Alterna Savings establishes and maintains an allowance for impaired loans that is considered the best estimate of probable credit-related losses existing in its loan portfolio giving due regard to current conditions. The allowance includes both specific and general provisions, reviewed on a regular basis by management. The allowance is increased by provisions for impaired loans which are charged to earnings and reduced by write-offs, net of recoveries.

Specific allowances are established on individual loans in accordance with DICO By-law #6 and the Office of the Superintendent of Financial Institutions ("OSFI") regulations. The specific allowance is the amount that is required to write down the loan to the discounted expected future cash flows at the effective interest rate and, if not measurable, to the fair value of any security, net of expected costs of realization.

The general allowance is established in accordance with DICO By-law #6 and OSFI regulations. Factors considered when determining the general allowance include reviewing the credit portfolio's inherent risks, economic conditions and trends. A general allowance is established when evidence of impairment losses within groups or classifications of loans exists but is not sufficient to allow the determination of specific allowances.

Loan Costs
Loan costs include the provision for loan losses and collection costs.

f) Mortgage Sales and Securitizations
Alterna Savings may from time to time sell or securitize a portion of its residential and commercial mortgage loan portfolio to diversify its funding sources and enhance its liquidity position. These transactions are accounted for in accordance with CICA's Accounting Guideline 12 (AcG-12) *Transfers of Receivables* and as such have been recorded as sales, and the related loans have been removed from the balance sheet as control over the loans has been surrendered.

Mortgage Sales
Gains or losses on these transactions are reported as other income on the consolidated statement of income. Alterna Savings has not retained any interests in these mortgages sold.

Securitizations
Securitizations are accounted for as sales when Alterna Savings surrenders control of the transferred assets and receives consideration other than retained interests in the transferred assets.

Upon the sale of these assets, a net gain or loss is recognized in the consolidated income statement under other income. The amount of the gain or loss recognized depends on the previous carrying values of the receivables involved in the transfer, allocated between the assets sold and retained interests based on their relative fair values at the date of transfer. As market prices are generally not available for retained interests, Alterna Savings estimates fair value based on the present value of expected future cash flows.

Retained interests are recorded on the consolidated balance sheet under investments. Retained interests designated as available-for-sale are reviewed for impairment on an annual basis.

Alterna Savings generally transfers loans on a fully serviced basis. On the transfer date, a servicing liability is recognized at fair value and presented in other liabilities. This liability is amortized to income over the term of the transferred loans.

Income from securitized assets comprises income from retained interests and servicing income, which are reported in the consolidated income statement under investment income and other income, respectively.

g) Property and Equipment
Property and equipment is presented at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	10 years
Furniture and equipment	5 to 10 years
Computer hardware	3 to 5 years
Leasehold improvements	Term of lease plus one option period

h) Intangible Assets
Intangible assets with an indefinite life are not amortized but are subjected to an impairment review at least annually, and, if impaired, are written down to fair value. The impairment review is based on a comparison of the intangible asset's carrying value with its fair value.

Intangible assets with a definite life are amortized on a straight-line basis over the estimated useful lives of the assets as follows:

Computer software	3 to 7 years

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.

i) Employee Benefit Plans
Alterna Savings maintains three pension plans for current employees and retirees, and one post-retirement benefits plan. The pension plans consist of a Defined Benefit Plan ("DB"), a Supplementary Retirement Income Plan ("SRIP"), and a Defined Contribution Plan ("DC").

For the DB pension plan, the SRIP and the post-retirement benefits plan, plan assets are valued at fair values. Benefits costs and accrued benefits are determined based upon actuarial valuations using the projected benefit method prorated on service and management's best estimates. The expected return on plan assets is based on the fair value of plan assets. Actuarial gains and losses as well as past service costs are deferred and amortized over the expected average remaining service life of the employee group covered under the plans. The benefit plan expense is the net of the cost of the post-employment benefits for the current year's service, interest expense on plan liabilities, interest revenue on plan assets, and the amortization of pension adjustments on a straight-line basis over the expected average remaining service life of the employee group covered under the plan.

For the DC pension plan, annual pension expense is equal to Alterna Savings' contribution to the plan.

j) Income Taxes
Alterna Savings uses the liability method of income tax allocation where temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes give rise to future income taxes.

k) Other Income
Service charges, ABM networks, commissions and revenue from other sources are recognized as revenue when the related services are performed or are provided.

l) Foreign Currency
Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the rate of exchange prevailing at year end; income and expenses are translated at the annual average rate. Foreign currency exchange gains and losses are recognized in other income during the year.

m) Future Accounting Policy Changes
International Financial Reporting Standards ("IFRS")
The Accounting Standards Board confirmed in February 2008 that IFRS will replace current Canadian GAAP for publicly accountable enterprises for financial periods beginning on or after January 1, 2011. As such, Alterna Savings will be required to prepare its first consolidated financial statements under IFRS for the year ended December 31, 2011 including comparative information for the year ended December 31, 2010.

Alterna Savings has substantially completed the process of transitioning from current Canadian GAAP to IFRS. It has established a formal project plan, allocated internal resources and engaged expert consultants, monitored by a Steering Committee to manage the transition from Canadian GAAP to IFRS reporting. The Finance & Audit Committee and the Board of Directors have been regularly updated with the progress of the convergence project through communication and meetings. Alterna Savings completed a detailed analysis of the differences between IFRS and Alterna Saving's current accounting policies under existing Canadian GAAP and successfully prepared its IFRS opening balance sheet as of January 1, 2010.

3. INVESTMENTS

	2010 (000's)	2009 (000's)
Central 1 liquidity deposits	**$141,796**	$137,681
Money market instruments	**64,210**	-
Central 1 shares	**13,710**	13,690
ABCP LP (note 4)	**9,485**	8,305
Retained interests (note 7)	**3,021**	5,009
Residential mortgages purchased as investments	**-**	369
Other	**338**	339
	$232,560	$165,393

As a condition of maintaining membership in Central 1 in good standing, Alterna Savings is required to maintain on deposit in Central 1's liquidity pool an amount equal to 7% of its total assets adjusted at each calendar quarter end (2009 – 7%) of its own membership shares and deposits as at the preceding calendar year end. This will decrease to 6% in February 2011. The deposits bear interest at various rates.

Alterna Savings' investment in ABCP LP has been designated as held-for-trading and has been measured and recorded at fair value. Retained interests are classified as either available-for-sale or designated as held-for-trading based on management's intention and they are measured and recorded at fair value. All remaining investments have been classified as available-for-sale and have been measured and recorded at fair value except for Central 1 shares and other investments which are carried at cost as they are not actively traded and have no established market value.

As at December 31, 2010, included in money market instruments are US dollar investments of US$17,100,000 (2009 - US$nil) with a carrying value of $17,008,000 (2009 - $nil) and included in other are US dollar investments of US$30,000 (2009 - US$30,000) with a carrying value of $30,000 (2009 - $32,000).

4. ASSET-BACKED COMMERCIAL PAPER LIMITED PARTNERSHIP

As a pre-condition of the sale of the assets of Credit Union Central of Ontario (CUCO) to Credit Union Central of British Columbia (CUCBC) in 2008, CUCO was required to divest itself of investments in certain third-party sponsored asset-backed commercial paper ("ABCP"). A resolution was approved to facilitate the sale, which created a limited partnership ("ABCP LP") (note 3) to acquire these investments funded by member credit unions in proportion to their share investment in CUCO. This limited partnership meets the accounting definition of a variable interest entity. On July 1, 2008, immediately prior to the sale, the excluded ABCP with a total par value of $186,916,000 was acquired by the ABCP LP at its estimated fair value of $133,564,000 including accrued interest, net of expenses, and other assets. Alterna Savings was required to purchase 12,535,000 units in the ABCP LP. As there was no active market for these ABCP investments, the fair values used to determine the acquisition price were provided by a specialized asset management firm engaged by CUCO to provide an independent valuation of the underlying assets. As investments held by the ABCP LP mature and excess cash is held, the ABCP LP periodically distributes cash to the unit holders, repaying part of their initial investment.

The majority of the assets owned by the limited partnership were subject to the Montreal Accord, which was established by a group of major investors in third-party sponsored ABCP after the market for these investments became illiquid in August 2007. The purpose of the Accord was to restructure the investments into new Master Asset Vehicles (MAV's), with longer term maturities. The restructuring was completed in January 2009 and the transfers of the new notes were completed by the end of February 2009. It is expected that the market for these notes will continue to slowly return to more normal conditions.

Due to the lack of liquidity and the consequent lack of market prices of third-party sponsored ABCP that is held by the limited partnership, Alterna Savings has relied upon the independent valuations provided to the ABCP LP. Alterna Savings agrees with the significant assumptions and estimates used in those valuations and the risk of default in the underlying assets. The valuations use a discounted cash flow model that values the underlying assets based on asset spreads and timing of payments on the restructured notes. Those valuations were based on assessments as at December 30, 2010 and 2009 using estimates and circumstances that may change in subsequent periods. Items that may have a material impact on the fair value include further changes in the value of the underlying assets, developments related to the liquidity of the third-party sponsored ABCP market and further changes in economic conditions, which could therefore affect the carrying value of the ABCP LP units. The net increase in the fair market value of the investment of $1,625,000 (2009 – increase of $1,273,000) is included under unrealized losses on financial instruments on the consolidated statement of income. During the year, Alterna Savings received $445,000 (2009 - $1,954,000) in cash distributions from the ABCP LP which have been recorded as a reduction in the carrying value of the investment.

The ABCP LP is governed by a Board of Directors that was elected by Ontario credit unions that were members of the former CUCO and each limited partner records its proportionate share of net income or loss in the ABCP LP as determined by Canadian generally accepted accounting principles.

5. LOANS

	2010 (000's)	2009 (000's)
Personal loans	**$251,677**	$267,216
Residential mortgage loans	**869,841**	811,703
Commercial loans	**694,968**	652,571
	1,816,486	1,731,490
Less allowance for impaired loans (note 6)	**(3,589)**	(3,841)
	$1,812,897	$1,727,649

During the year, Alterna Savings securitized residential mortgage loans amounting to $nil (2009 - $68,526,000), generating net gains on sale of $nil (2009 - $4,170,000). These gains have been recorded in other income on the consolidated statement of income. Alterna Savings has retained interests in the residential mortgages sold under the Canada Mortgage Bond Program (note 7).

6. ALLOWANCE FOR IMPAIRED LOANS AND IMPAIRED LOANS

a) Allowance for Impaired Loans

				2010 (000's)	2009 (000's)
	Personal Loans	**Residential Mortgage Loans**	**Commercial Loans**	**Total**	Total
Balance, beginning of year	**$999**	**$277**	**$2,565**	**$3,841**	$3,876
Less: Loans written off	**(1,167)**	**(18)**	**(78)**	**(1,263)**	(1,185)
Add: Recoveries on loans previously written off	**191**	**-**	**-**	**191**	242
Add: Allowance charged to operations	**566**	**26**	**228**	**820**	908
Balance, end of year	**$589**	**$285**	**$2,715**	**$3,589**	$3,841

The allowance for impaired loans includes a general allowance of $2,677,000 (2009 - $2,458,000) pertaining to commercial loans, $280,000 (2009 - $277,000) pertaining to residential mortgage loans and $47,000 (2009 - $45,000) pertaining to personal loans.

b) Impaired Loans

The balance of loans identified as impaired, prior to any recovery from collateral on these loans, at the end of the year was as follows:

	2010 (000's)	2009 (000's)
Personal loans	**$541**	$1,003
Residential mortgage loans	**701**	1,636
Commercial loans	**40**	108
	$1,282	$2,747

c) Loans Past Due But Not Impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of the loans that are past due but not classified as impaired because they are either (i) less than 90 days past due, or (ii) less than 180 days past due and fully secured and collection efforts are reasonably expected to result in repayment.

				2010 (000's)	2009 (000's)
	1-29 days	**30-89 days**	**90 days and greater**	**Total**	Total
Personal loans	**$8,634**	**$1,178**	**$-**	**$9,812**	$12,905
Residential mortgage loans	**25,033**	**3,774**	**827**	**29,634**	33,632
Commercial loans	**1,779**	**63**	**-**	**1,842**	24,231
	$35,446	**$5,015**	**$827**	**$41,288**	$70,768

As of December 31, 2010, 98% of the loans were neither past due nor impaired (2009 - 96%). During the year, $24,000 (2009 - $113,000) of mortgages or loans that would otherwise be past due or impaired were restructured.

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.

7. LOAN SECURITIZATION

Alterna Savings securitizes fixed-rate residential mortgages through the creation of mortgage-backed securities under the Canada Mortgage Bond Program (“CMB Program”) through Central 1. Alterna Savings retains an excess-spread interest in these transferred mortgages and responsibility for servicing them for which no explicit servicing fee is received. As Alterna Savings has an obligation to service the mortgages, a servicing liability has been recorded and is included in other liabilities on its consolidated balance sheet.

The following table summarizes Alterna Savings’ securitization activity entered during the year ended December 31:

	2010 (000's)	2009 (000's)
Amount securitized/sold	**$-**	$68,526
Proceeds from sale	-	68,842
Retained interests	-	5,582
Gains on sale, net of transaction costs	-	4,170
Servicing liabilities	-	467
Cash flows received on retained interests	**2,217**	1,467
Outstanding balances of securitized loans at December 31	**53,261**	72,881

Retained interests are either classified as available-for-sale or designated as held-for-trading based on management’s intent. They are included in investments on the consolidated balance sheet (note 3).

The following table summarizes the weighted average key assumptions (%) at December 31:

	2010 (%)	2009 (%)
Weighted-average remaining life (in years)	**3.13**	4.07
Prepayment rate	**11.24**	11.93
Excess spread	**2.06**	2.15
Discount rate	**2.90**	3.21

As the mortgages are fully insured, there are no expected credit losses.

The following summarizes the sensitivity of the fair value of retained interests to two adverse changes in key assumptions as at December 31:

	2010 (000's)	2009 (000's)
Carrying value of retained interests	**$3,021**	$5,009
Prepayment rate assumption		
Impact of a 10% adverse change	**(51)**	(115)
Impact of a 20% adverse change	**(100)**	(226)
Residual cash flow discount rate (annual rate)		
Impact of a 10% adverse change	**(11)**	(24)
Impact of a 20% adverse change	**(21)**	(48)

The sensitivity analysis is hypothetical and should be viewed with caution, as changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumptions. Changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

8. PROPERTY AND EQUIPMENT

			2010 (000's)			2009 (000's)
	Cost	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value
Land	**$3,317**	**$-**	**$3,317**	$3,317	$-	$3,317
Buildings	**9,070**	**8,754**	**316**	9,043	8,385	658
Furniture and equipment	**9,131**	**4,919**	**4,212**	7,968	5,976	1,992
Computer hardware	**4,436**	**3,552**	**884**	4,506	3,407	1,099
Leasehold improvements	**8,889**	**6,720**	**2,169**	8,760	6,090	2,670
	$34,843	**$23,945**	**$10,898**	$33,594	$23,858	$9,736

Assets under capital leases totalling $5,823,000 (2009 - $5,375,000) are included in computer hardware as well as furniture and equipment. Amortization expense and accumulated amortization on capital leases were $531,000 and $2,855,000, respectively (2009 - $749,000 and $4,689,000, respectively). Assets acquired by means of capital leases are non-cash transactions for purposes of the cash flow statement, and consequently have not been presented as either a financing or an investing activity.

Total amortization charged to income in 2010, including the foregoing capital lease amortization, was $2,611,000 (2009 - $3,333,000) and is included in administration and occupancy costs under operating expenses on the consolidated statement of income.

9. INTANGIBLE ASSETS

	2010 (000's)			2009 (000's)		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Computer software	**$15,756**	**$11,898**	**$3,858**	$15,706	$9,980	$5,726
Other	**200**	**-**	**200**	200	-	200
	$15,956	**$11,898**	**$4,058**	$15,906	$9,980	$5,926

The aggregate amount of intangible assets acquired during the year was $310,000 (2009 - $505,000). Total amortization charged to income in 2010 was $2,091,000 (2009 - $2,274,000) and is included in administration costs under operating expenses on the consolidated statement of income. All intangible assets have been acquired, not developed.

10. OTHER ASSETS

	2010 (000's)	2009 (000's)
Accrued employee benefit plan asset (note 19)	**$8,762**	$7,722
Accrued interest receivable	**4,827**	3,947
Income tax receivable	**-**	939
Other	**4,162**	2,949
	$17,751	$15,557

11. DEPOSITS

	2010 (000's)	2009 (000's)
Demand deposits	**$845,641**	$800,004
Term deposits	**473,054**	461,084
Registered plans	**678,444**	643,521
	$1,997,139	$1,904,609

As at December 31, 2010, Alterna Savings held US dollar deposits from clients of US$20,916,000 (2009 - US$15,210,000) with a carrying amount of $20,803,000 (2009 - $15,985,000).

12. BORROWING FACILITIES

Alterna Savings (unconsolidated) has access to a $168,400,000 credit facility with Central 1 consisting of operating lines of credit of CDN $7,000,000 and U.S. $500,000, term loans of CDN $120,600,000 and additional uncommitted term loan funds of CDN $34,700,000 plus CDN $600,000 for capital markets and CDN $5,000,000 for letters of credit.

The lines of credit are payable on demand within 30 days, bear interest at the Bank of Canada overnight rate plus 0.75% and are secured by a pledge of certain assets under a general security agreement. There was a $nil balance on these lines of credit at the end of the year (2009 - $nil).

The operating term loans are payable at maturity or at call period (7 days), bear interest at Central 1 cost of fund rate plus 20 to 50 basis points and are secured by a pledge of certain assets under a general security agreement. There was a $nil balance on the operating term loans at the end of the year (2009 - $30,000,000). The borrowings against the uncommitted funds are payable at maturity, bear interest at Central 1 cost of fund rate plus a variable spread plus a 5 to 10 basis points standby fee.

The carrying values of assets pledged under the general security agreement, excluding assets of Alterna Bank, are as follows:

	2010 (000's)	2009 (000's)
Loans, net of allowance for impaired loans	**$1,660,171**	$1,576,008
Property and equipment	**10,707**	9,475
Intangible assets	**3,858**	5,726
Other assets	**17,759**	16,124
	$1,692,495	$1,607,333

13. OTHER LIABILITIES

	2010 (000's)	2009 (000's)
Accrued interest payable	**$13,393**	$14,359
Trade payables and accrued expenses	**10,023**	10,020
Capital lease obligations (note 14)	**2,771**	717
Income taxes payable	**1,579**	-
Deferred revenue	**1,518**	755
Certified cheques	**1,399**	1,215
Salaries and benefits payable	**1,031**	973
Dividend payable	**533**	526
Servicing liabilities	**277**	451
	$32,524	$29,016

14. CAPITAL LEASE OBLIGATIONS

	2010 (000's)	2009 (000's)
Capital lease obligations repayable monthly and maturing at various dates up to November 2017, secured by the lessors' title to the leased property and equipment with implicit interest rates from 0.24% to 11.50% (see note 8).	**$2,771**	$717

Future minimum lease payments are as follows (in 000's):

2011	**$799**
2012	**618**
2013	**440**
2014	**366**
2015	**337**
Thereafter	**610**
	3,170
Less implicit interest included above	**(399)**
	$2,771

15. 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.

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 eighteen years of age. Each member under the age of eighteen 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. The dividend rate for both Class A, Series 1 and Class A, Series 2 was approved by the Board of Directors at 5.63% for the period of September 1, 2009 to August 31, 2010 and January 1, 2010 to December 31, 2010, respectively.

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 Winding-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 were not permitted to redeem their shares prior to the fifth anniversary of the 1st issuance of shares or August 2007. 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 30th or December 31st 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. 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 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.

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.

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, 2010 is as follows (in 000's):

	Class A Special Shares				**Class B Special Shares**		**Membership Shares**	
	Series 1		**Series 2**		**Series 1**			
	Number of Shares	**$**	**Number of Shares**	**$**	**Number of Shares**	**$**	**Number of Shares**	**$**
Issued and outstanding as at December 31, 2008	12,666	12,453	9,270	9,270	2,822	2,822	1,898	1,898
Net shares issued (redeemed)	(391)	(391)	78	78	(213)	(213)	(119)	(119)
Issued and outstanding as at December 31, 2009	12,275	12,062	9,348	9,348	2,609	2,609	1,779	1,779
Net shares issued (redeemed)	9	9	95	95	(163)	(163)	(201)	(201)
Issued and outstanding as at December 31, 2010	12,284	$12,071	9,443	$9,443	2,446	$2,446	1,578	$1,578

d) Dividends Declared:

During 2010 the Board of Directors approved (i) a $692,000 dividend to holders of record of 12,283,000 Class A, Series 1 shares as of August 31, 2010 (2009 - $712,000) payable in cash; (ii) a $532,000 dividend to holders of record of 9,442,000 Class A, Series 2 shares as of December 31, 2010 payable in cash and/or additional Class A, Series 2 shares (2009 – $526,000); and (iii) a $26,000 dividend to holders of record of 2,609,000 Class B, Series 1 shares as of December 31, 2009 payable in additional Class B, Series 1 shares (2009 - $28,000). These dividends are presented in members' equity net of income taxes of $201,000 (2009 - $231,000) in the consolidated financial statements, for a balance of $1,049,000 (2009 - $1,035,000).

16. INTEREST INCOME AND INTEREST EXPENSE

	2010 (000's)	2009 (000's)
Interest Income:		
Personal loans	**$10,136**	$9,976
Residential mortgage loans	**37,043**	38,998
Commercial loans	**37,879**	34,196
Swap agreements	**5,057**	5,756
	$90,115	$88,926
Interest Expense:		
Demand deposits	**$3,959**	$4,661
Term deposits	**11,129**	14,435
Registered plans	**19,096**	20,693
Borrowings	**298**	229
	$34,482	$40,018

17. OTHER INCOME

	2010 (000's)	2009 (000's)
Service charges	**$5,951**	$6,134
Commissions	**4,992**	4,161
ABM network fees	**1,284**	1,385
Gains on securitization of mortgages	**-**	4,170
Other	**625**	840
	$12,852	$16,690

18. OPERATING EXPENSES

	2010 (000's)	2009 (000's)
Salaries and benefits	**$32,847**	$33,197
Administration	**14,927**	14,435
Occupancy	**6,464**	6,656
Data processing	**4,714**	5,029
Marketing and community relations	**1,997**	1,431
Deposit insurance premiums	**1,828**	1,737
	$62,777	$62,485

19. EMPLOYEE BENEFIT PLANS

Alterna Savings maintains three pension plans for current employees and retirees, and one post-retirement benefits plan. Until March 31, 2006, some employees were eligible to join in the Alterna Savings DB plan that provides for an early retirement incentive for eligible employees as noted below; and, the senior executives who participate in the DB plan were provided with a SRIP. Both plans provide for pensions based on length of service and career average earnings.

Other employees are eligible to participate in the DC plan which prescribes both employer and employee contributions. An early retirement incentive is also provided for eligible employees as noted below, as well as a post-retirement benefits plan to certain eligible employees and retirees.

Effective January 1, 2008, pension benefits for employees participating in an Alterna Savings DB pension plan began to accrue under the DC plan and all benefits ceased to accrue under the existing DB pension plan and SRIP. Early retirement benefits have been removed for all employees who were not eligible for retirement prior to January 1, 2008. Post-retirement benefits ceased as of March 1, 2006 for employees retiring after February 28, 2006 and not eligible to retire at that date. Existing retirees will continue to receive benefits under the plans in which they had been enrolled.

Defined Pension and Benefits Plans

The assets and accrued benefit obligation of the defined benefits pension plans (DB pension plan and SRIP) and the post-retirement benefits plan were measured as at December 31, 2010, and are detailed as follows:

			2010 (000's)	2009 (000's)
	Pension	**Benefits**	**Total**	Total
Accrued benefit obligation:				
Balance, beginning of year	**$19,615**	**$415**	**$20,030**	$17,918
Current service cost	**-**	**11**	**11**	10
Interest cost	**1,226**	**20**	**1,246**	1,291
Benefits paid	**(1,284)**	**(23)**	**(1,307)**	(1,453)
Actuarial losses (gains)	**2,380**	**(239)**	**2,141**	2,264
Balance, end of year	**$21,937**	**$184**	**$22,121**	$20,030
Plans' assets:				
Fair value, beginning of year	**$23,883**	**$-**	**$23,883**	$23,062
Actual return on plan assets	**1,831**	**-**	**1,831**	2,233
Employer contributions	**652**	**23**	**675**	41
Benefits paid	**(1,284)**	**(23)**	**(1,307)**	(1,453)
Fair value, end of year	**$25,082**	**$-**	**$25,082**	$23,883
Overfunded (underfunded) status of plans	**$3,145**	**($184)**	**$2,961**	$3,853
Unamortized net actuarial losses (gains)	**6,164**	**(241)**	**5,923**	4,110
Unamortized transitional gains	**(122)**	-	**(122)**	(241)
Accrued benefit asset (liability)	**$9,187**	**($425)**	**$8,762**	$7,722

As at December 31, 2010, the over funded status of the DB pension plan was $2,150,000 (2009 - $3,056,000) and the over funded status of the SRIP was $995,000 (2009 - $1,212,000).

The accrued benefit asset of $8,762,000 (2009 - $7,722,000) is included in other assets on the balance sheet.

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

	2010		2009	
	Pension	**Benefits**	Pension	Benefits
Discount rate for accrued benefit obligation	**5.56%**	**3.60%**	6.44%	4.75%
Discount rate for pension expense	**6.45%**	**4.75%**	7.50%	7.50%
Rate of compensation increase	**n/a**	**n/a**	n/a	n/a
Expected long-term rate of return on plan assets	**6.88%**	**n/a**	6.67%	n/a

The health care cost trend rate is expected to be 10% in 2011 decreasing by 1% per year until the rate reaches 4% in 2017.

Assumed health care cost trend rates have an impact on the amounts reported for the health care and dental plans post-retirement benefits plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2010:

	Increase	Decrease
Total of service and interest cost	$36	$36
Accrued benefit obligation	$1,000	$1,000

As at December 31, 2010, the weighted average percentage of market value of the pension plans' assets for each major asset class was as follows:

Fixed Income:	
Cash equivalents	**7%**
Bonds	**31%**
	38%
Equities:	
Canadian	**35%**
United States	**13%**
Other international	**14%**
	62%
	100%

The net defined benefit plans and post-retirement benefit plan's recovery included in operating expenses on the consolidated statement of income is as follows:

	2010 (000's)	2009 (000's)
Current service cost	**$11**	$10
Interest cost	**1,246**	1,291
Expected return on plan assets	**(1,622)**	(1,480)
Amortization of transitional gains	**(110)**	(110)
Amortization of net actuarial losses and other	**112**	40
	($363)	($249)

The actual return on plan assets was $208,000 higher (2009 - $753,000 higher) than expected return on plan assets for the year ended December 31, 2010.

The next actuarial valuation for funding purposes of the DB pension plan is to be performed no later than as at December 31, 2012 (the most recent valuation was performed as at December 31, 2009). There are no required funding valuation dates for the SRIP or the post-retirement benefits plan as they are not registered plans. The most recent valuation prepared for accounting purposes was December 31, 2009 for the defined benefit plan and December 31, 2010 for the post-retirement benefit plan.

Defined Contribution Pension Plan

The pension expense for the DC pension plan for the year ended December 31, 2010 was $1,090,000 (2009 - $990,000).

Total Cash Payments

Total cash payments for employee benefit plans for 2010, consisting of cash contributed by Alterna Savings to its funded defined benefits pension plans, cash payments directly to beneficiaries for its unfunded post-retirement benefits plan and cash contributed to its defined contribution pension plan was $1,765,000 (2009 - $1,031,000).

20. INCOME TAXES

Significant components of the future income tax asset (liability) of Alterna Savings are as follows:

	2010 (000's)	2009 (000's)
Deferred pension expense	**($1,145)**	($1,066)
Derivatives	**(131)**	(661)
Corporate minimum tax	**458**	639
Allowance for impaired loans	**453**	453
Deferred revenue	**276**	-
Property and equipment	**245**	(106)
Other	**(35)**	22
	$121	($719)

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

	2010		2009	
	Amount (000's)	**Percent**	Amount (000's)	Percent
Tax at combined federal and provincial rates	**$2,421**	**41%**	$1,655	42%
Credit union deduction	**(2,780)**	**(47%)**	(899)	(23%)
Future tax rate differential	**1,963**	**33%**	(572)	(15%)
Impact of mark to market legislation	**-**	**-%**	(452)	(11%)
Rate differential (between parent and subsidiary)	**(236)**	**(4%)**	-	-%
Prior years' adjustments	**(93)**	**(2%)**	(101)	(2%)
Permanent differences	**38**	**1%**	19	-%
Other – net	**165**	**3%**	152	4%
	$1,478	**25%**	($198)	(5%)

The Ontario Corporate Minimum tax credits carried forward will also expire as follows (in 000's):

2015	$44
2016	36
2028	235
2029	143
	$458

21. 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 allowance for impaired loans, using the valuation methods and assumptions described below.

	2010 (000's)		2009 (000's)	
	Carrying value	**Fair value**	Carrying value	Fair value
Available-for-sale:				
Cash and cash equivalents	**$81,933**	**$81,933**	$166,222	$166,222
Investments	**220,386**	**220,386**	152,774	152,774
Designated as held-for-trading:				
Investments	**12,174**	**12,174**	12,619	12,619
Classified as held-for-trading:				
Derivative financial instruments				
- swaps	**3,598**	**3,598**	6,458	6,458
- purchased options	**2,727**	**2,727**	2,278	2,278
- equity options	**975**	**975**	-	-
Loans and receivables:				
Loans				
- personal loans	**251,677**	**252,228**	267,216	268,110
- residential mortgage loans	**869,841**	**901,278**	811,703	867,160
- commercial loans	**694,968**	**729,755**	652,571	702,970
TOTAL ASSETS	**$2,138,279**	**$2,205,054**	$2,071,841	$2,178,591
Other liabilities:				
Deposits				
- demand deposits	**$845,641**	**$845,641**	$800,004	$800,004
- term deposits	**473,054**	**475,910**	461,084	468,107
- registered plans	**678,444**	**685,213**	643,521	654,607
Borrowings	-	-	30,000	30,000
Classified as held-for-trading:				
Derivative financial instruments				
- swaps	**803**	**803**	2,499	2,499
- embedded options	**2,700**	**2,700**	2,233	2,233
TOTAL LIABILITIES	**$2,000,642**	**$2,010,267**	$1,939,341	$1,957,450

The estimated fair value amounts approximate the amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. Fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates. Because of the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of instruments.

The fair values of financial instruments are generally determined as follows:

Investments (excluding Central 1 shares, other shares and investment in ABCP LP) - at discounted cash flows using prevailing interest rates.

Personal loans, residential mortgage loans, commercial loans and deposits - at discounted cash flows using prevailing interest rates of instruments with similar remaining terms. The fair values of all types of loans are calculated before allowance for impaired loans.

Derivative financial instruments (excluding equity options) – determined through valuation models based on the derivative notional amounts, maturity dates and rates.

The fair values of financial instruments with a term of less than one year approximate their carrying values, due to their short term nature, except where otherwise indicated.

Fair Value Hierarchy

Financial instruments carried at fair value have been classified into a hierarchy based on quoted prices in active markets (Level 1), models using observable inputs other than quoted prices (Level 2), or models using inputs that are not based on observable market data (Level 3).

The following tables show the hierarchical classification of financial assets and liabilities measured at fair value as at December 31, 2010 and 2009:

December 31, 2010	**Level 1 (000's)**	**Level 2 (000's)**	**Level 3 (000's)**	**Total (000's)**
Financial assets:				
Financial investments held-for-trading	**$-**	**$-**	**$12,174**	**$12,174**
Financial investments available-for-sale	-	**206,006**	**332**	**206,338**
Derivative financial instruments				
- swaps	**-**	**3,598**	**-**	**3,598**
- purchased options	**-**	**2,726**	**-**	**2,726**
Total financial assets	**$-**	**$212,330**	**$12,506**	**$224,836**
Financial liabilities :				
Derivative financial instruments				
- swaps	**($-)**	**($803)**	**($-)**	**($803)**
- embedded options	**(-)**	**(2,700)**	**(-)**	**(2,700)**
Total financial liabilities	**($-)**	**($3,503)**	**($-)**	**($3,503)**

December 31, 2009	Level 1 (000's)	Level 2 (000's)	Level 3 (000's)	Total (000's)
Financial assets:				
Financial investments held-for-trading	$-	$-	$12,619	$12,619
Financial investments available-for-sale	-	137,681	1,064	138,745
Derivative financial instruments				
- swaps	-	6,458	-	6,458
- purchased options	-	2,278	-	2,278
Total financial assets	$-	$146,417	$13,683	$160,100
Financial liabilities :				
Derivative financial instruments				
- swaps	($-)	($2,499)	($-)	($2,499)
- embedded options	(-)	(2,233)	(-)	(2,233)
Total financial liabilities	($-)	($4,732)	($-)	($4,732)

The table below presents the changes in fair value of Level 3 financial assets and liabilities for the year ended December 31, 2010. These instruments are measured at fair value utilizing non-observable market inputs. The total net gains included in investment income in the consolidated statement of income, on financial instruments for which fair value was estimated using a valuation technique requiring non-observable market inputs was $1,903,000 (2009 - $1,730,000).

December 31, 2010		Net realized/unrealized gains/(losses) included in					
(000's)	Opening balance	Net income (loss)	OCI	Purchases	Settlements	Closing balance	Unrealized gains (losses) [1]
Financial investments held-for trading	**$12,619**	**$1,917**	**$-**	**$-**	**($2,362)**	**$12,174**	**$1,917**
Financial investments available-for-sale	**1,064**	**(14)**	**(27)**	**-**	**(691)**	**332**	**(14)**
	$13,683	**$1,903**	**($27)**	**$-**	**($3,053)**	**$12,506**	**$1,903**

December 31, 2009		Net realized/unrealized gains/(losses) included in					
(000's)	Opening balance	Net income	OCI	Purchases	Settlements	Closing balance	Unrealized gains [1]
Financial investments held-for trading	$8,986	$1,211	$-	$5,582	($3,160)	$12,619	$1,551
Financial investments available-for-sale	8,591	179	(146)	-	(7,560)	1,064	179
	$17,577	$1,390	($146)	$5,582	($10,720)	$13,683	$1,730

[1] Changes in unrealized gains (losses) included in earnings for instruments held as at December 31, 2010 and 2009.

There were no transfers in or out of Level 3 during the years ended December 31, 2010 and 2009.

22. 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 recorded as assets on the consolidated balance sheet.

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 Policy for investments. These policies are reviewed and approved annually by the Board of Directors.

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, $1,500,000 in residential mortgage loans per borrower, $20,000,000 in commercial 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 capital repayment obligations and by changing these lending limits where appropriate.

Alterna Savings invests surplus liquidity in the short-term money market, securities that are secured by mortgages and in the bond market. All investments held in short-term instruments must be rated R1-L or better by Dominion Bond Rating Service (DBRS) and A-3 or better by Standard & Poor's (S&P). All securities that are secured by mortgages are guaranteed under the National Housing Act. All investments in bonds must be rated A or better by both DBRS and S&P. Investments, other than those issued by the Government of Canada and its Crown Corporations, are diversified by limiting investments in any one issuer to a maximum of 25% of the total portfolio. In addition, investments in any single issuer or connected group are limited to a policy stated limit of $5,000,000 to $50,000,000 commensurate with the issuer's credit ratings.

Alterna Savings does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Alterna Savings defines counterparties as having similar characteristics if they are related entities or operate in similar industries. The concentration risk is limited for residential mortgages as 33% (2009 - 34%) of the residential mortgages are 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 financial statements excluding the amount of the insured mortgages, net of impairment losses, represents Alterna Savings' maximum exposure to credit risk without taking account of the value of any collateral obtained. The maximum exposure to credit risk at Alterna Savings was $1,528,567,000 at December 31, 2010 (2009 - $1,450,916,000).

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

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.

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.

Alterna Savings' interest rate risk objective is to maximize interest margin while complying with the approved interest rate risk policy limits. Alterna Savings uses interest rate derivatives such as swaps and options to manage interest rate risk.

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

Alterna Savings' maximum tolerable exposure to short-term interest rate risk over twelve months is restricted to 3% of average forecasted net interest income with a 95% confidence interval measured by the standard deviation of Monte Carlo income simulations. Its maximum tolerable exposure to interest rate risk on the entire balance sheet as measured by equity at risk is restricted to 7% of equity as a limit to mitigate long-term interest rate risk. As of December 31, 2010, the results for these measures were 0.62% (2009 – 1.10%) and 2.99% (2009 – 2.45%), respectively.

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

							2010 (000's)	2009 (000's)
				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	**$38,564**	**$-**	**$43,369**	**$-**	**$-**	**$-**	**$81,933**	$166,222
Interest Rates	**-**	**-**	**1.04%**	**-%**	**-%**	**-%**	**0.55%**	0.16%
Investments	**$26,553**	**$-**	**$63,902**	**$42,160**	**$99,945**	**$-**	**$232,560**	$165,393
Interest Rates	**-%**	**-%**	**1.24%**	**1.58%**	**2.41%**	**-%**	**1.66%**	0.99%
Personal loans	**$-**	**$243,956**	**$600**	**$1,104**	**$5,428**	**$-**	**$251,088**	$266,217
Interest Rates	**-%**	**4.19%**	**5.80%**	**8.36%**	**6.87%**	**-%**	**4.27%**	3.44%
Residential mortgage loans	**$-**	**$131,954**	**$5,841**	**$43,472**	**$688,220**	**$69**	**$869,556**	$811,426
Interest Rates	**-%**	**2.95%**	**4.56%**	**4.93%**	**4.43%**	**5.78%**	**4.23%**	4.42%
Commercial loans	**$-**	**$135,574**	**$24,820**	**$73,636**	**$407,765**	**$50,458**	**$692,253**	$650,006
Interest Rates	**-%**	**4.93%**	**5.41%**	**5.35%**	**5.45%**	**5.47%**	**5.34%**	5.38%
Other:	**$32,828**	**$7,300**	**$-**	**$-**	**$-**	**$-**	**$40,128**	$39,955
TOTAL ASSETS	**$97,945**	**$518,784**	**$138,532**	**$160,372**	**$1,201,358**	**$50,527**	**$2,167,518**	$2,099,219
Deposits	**$-**	**$937,737**	**$173,379**	**$395,765**	**$490,258**	**$-**	**$1,997,139**	$1,904,609
Interest Rates	**-%**	**0.61%**	**2.75%**	**2.19%**	**2.81%**	**-%**	**1.65%**	1.80%
Borrowings	**$-**	**$-**	**$-**	**$-**	**$-**	**$-**	**$-**	$30,000
Interest Rates	**-%**	**-%**	**-%**	**-%**	**-%**	**-%**	**-%**	0.80%
Other	**$34,102**	**$3,503**	**$-**	**$-**	**$-**	**$-**	**$37,605**	$36,246
Members' equity	**$132,774**	**$-**	**$-**	**$-**	**$-**	**$-**	**$132,774**	$128,364
TOTAL LIABILITIES AND MEMBERS' EQUITY	**$166,876**	**$941,240**	**$173,379**	**$395,765**	**$490,258**	**$-**	**$2,167,518**	$2,099,219
MATCHING GAP	**($68,931)**	**($422,456)**	**($34,847)**	**($235,393)**	**$711,100**	**$50,527**	**$-**	$-

Sensitivity Analysis
Based on Alterna Savings' interest rate positions as of December 31, 2010, an immediate and sustained 100 basis point increase in interest rates across all maturities would increase net interest income and decrease other comprehensive income by approximately $564,000 and $2,416,000 over the next 12 months, respectively. An immediate and sustained 100 basis point decrease in interest rates would decrease net interest income and increase other comprehensive income by approximately $985,000 and $2,531,000, respectively.

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 investments and members' US dollar deposits and investments.

Alterna Savings mitigates currency risk by investing in offsetting foreign denominated financial 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 denominated financial liabilities on a daily basis. As of December 31, 2010, the percentage of foreign denominated financial assets is within 90% - 110% of foreign denominated financial liabilities.

For a 1% instantaneous exchange rate increase (decrease), Alterna Savings' consolidated net income would increase (decrease) by $1,000.

c) Liquidity Risk

Liquidity risk is the risk that Alterna Savings (unconsolidated) 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 National Liquidity Fund through Credit Union Central of Canada. Alterna Savings reports the liquidity risk against policy limits to ALCO on a monthly basis and to the Board on a quarterly basis.

Alterna Savings maintains a minimum of 10% (2009 – 10%) of the amount of deposits, shares and borrowings in liquid assets such as cash, Treasury bills, Central 1 liquidity deposits and other highly marketable securities. As of December 31, 2010, the percentage of liquid assets to total assets was 12.89% (2009 – 13.82%). For the contractual maturities of assets and liabilities, please refer to the table under note 22 b) Interest rate risk.

The following table provides the maturity profile of financial liabilities based on the contractual repayment obligations, and excludes contractual cash flows related to derivatives liabilities which are disclosed in note 23.

					2010 (000's)	2009 (000's)
	Less than 1 year	**1 to 5 years**	**Over 5 years**	**No specified maturity**	**Total**	Total
Deposits	**$569,144**	**$490,258**	**$-**	**$937,737**	**$1,997,139**	$1,904,609
Borrowings	**-**	**-**	**-**	**-**	**-**	30,000
	$569,144	**$490,258**	**$-**	**$937,737**	**$1,997,139**	$1,934,609

23. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Alterna Savings uses derivative financial instruments such as swaps and options in its management of interest rate exposure. All the derivative financial instruments with the exception of equity options are interest rate derivatives. None of the derivative financial instruments are used for trading or speculative purposes. The following table summarizes the carrying values of the derivative financial instruments held by Alterna Savings:

	2010		2009	
	Carrying Value (000's)		Carrying Value (000's)	
	Assets	**Liabilities**	Assets	Liabilities
Designated accounting hedges	**$-**	**$757**	$2,820	$2,499
Economic hedges	**6,325**	**2,746**	5,916	2,233
Equity options	**975**	**-**	-	-
	$7,300	**$3,503**	$8,736	$4,732

Economic hedges represent derivatives not qualifying as hedging relationships for accounting purposes under CICA Handbook Section 3865, *Hedges*. All designated accounting hedges were cash flow hedges as at December 31, 2010.

a) Swap Agreements

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.

A summary of the fair values and fixed notional principal amounts on Alterna Savings' swap agreements is given below:

	2010				2009			
Maturity	**Fair Value (000's)**	**Notional Principal (000's)**	**Fixed Rate**	**Year End Floating Rate**	Fair Value (000's)	Notional Principal (000's)	Fixed Rate	Year End Floating Rate
2011	**$1,129**	**$65,000**	**4.80%**	**1.20%**	$3,544	$65,000	4.80%	0.40%
2013	**2,445**	**50,000**	**3.73%**	**1.19%**	2,821	50,000	3.73%	0.40%
2013	**24**	**8,146**	**1.60%**	**1.20%**	93	10,005	1.60%	0.40%
2014	**(757)**	**100,000**	**1.81%**	**1.30%**	(2,499)	100,000	1.81%	0.43%
2017	**(46)**	**1,754**	**3.08%**	**1.19%**	-	-	-	-
	$2,795	**$224,900**	**3.10%**	**1.24%**	$3,959	$225,005	3.09%	0.41%

	2010	2009
	Total fair value	Total fair value
Interest rate swaps (assets)	**$3,598**	$6,458
Interest rate swaps (liabilities)	**(803)**	(2,499)
	$2,795	$3,959

Alterna Savings is obligated to pay a floating rate of interest and receive a fixed rate on all swap agreements other than the swap agreement with a notional amount of $8,146,000 that matures in 2013 and the swap agreement with a notional amount of $1,754,000 that matures in 2017. These swaps obligate Alterna Savings to receive a floating rate of interest and pay a fixed rate.

No swap agreements matured and no swaps were disposed of in 2010 (2009 – two swap agreements with notional principal of $50,000,000 each matured and no swaps were disposed of).

b) Call Options

	2010					2009	
	Residual Term to Maturity						
	Under 1 year (000's)	**1 to 5 years (000's)**	**Over 5 years (000's)**	**Total Notional Principal (000's)**	**Fair Value (000's)**	Total Notional Principal (000's)	Fair Value (000's)
Purchased options (asset)	**$11,837**	**$14,487**	**$-**	**$26,324**	**$2,727**	$20,643	$2,278
Embedded options (liabilities)	**$11,837**	**$14,487**	**$-**	**$26,324**	**$2,700**	$20,643	$2,233

Alterna Savings has issued $26,324,000 of indexed term deposits to its members as of December 31, 2010 (2009 - $20,643,000). These term deposits have maturities of 3 to 5 years at issuance and pay interest to the depositors, at the end of the term, based on the performance of the S&P/TSX60 Index, the proprietary G7 Equity Index, or the Euro North America Equity Index. Alterna Savings uses purchased call options on the above indices with equivalent maturities to offset the exposure associated with these products.

c) Equity Options

During the year, Alterna Bank acquired an option to purchase 431,250 equity instruments totalling $975,000. This option may be exercised at a price of $0.00001 per share for a period of 7 years from the date of grant. Since the option is linked to equity instruments that do not have quoted market values in an active market, it is measured at cost.

d) Designated Accounting Hedges

For the year ended December 31, 2010, net losses of $371,000 (2009 – $796,000) were recognized under other income in the consolidated statement of income, representing the amount of the hedge ineffectiveness of the cash flow hedges. The amount of other comprehensive loss that is expected to be reclassified to the consolidated statement of income over the next 12 months is $597,000 ($519,000 after tax).

24. CAPITAL MANAGEMENT

Alterna Savings' (unconsolidated) capital management objective is to ensure the long term viability of the company 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 the Credit Unions and Caisses Populaires Act (Ontario) (the "Act"). Alterna Savings defines capital to include retained earnings, contributed surplus, general provisions, membership shares and special shares.

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

The policy requires Alterna Savings to hold capital equal to or exceeding the following limits:

	Regulatory Minimum	Alterna Savings Policy
Capital to total assets	4%	4%
Capital to risk weighted assets	8%	8%

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.

Capital Summary
As at December 31, 2010, Alterna Savings was in compliance with the policy, the Act and regulations with total capital as a percent of assets of 5.86% (2009 – 6.15%) and the total capital as a percent of risk weighted assets of 9.78% (2009 – 10.27%). In addition, Alterna Savings complied with these requirements throughout the year.

Elements of risk weighted capital as of December 31 are:

	2010 (000's)	2009 (000's)
Retained earnings	**$92,475**	$89,188
Special shares	**23,960**	24,019
Contributed surplus	**19,282**	19,282
Membership shares	**1,578**	1,779
General provisions	**2,623**	2,400
	$139,918	$136,668

25. COMMITMENTS AND CONTINGENCIES

a) Operating Leases

Alterna Savings has minimum annual payment obligations under operating leases as follows (in 000's):

2011	**$2,246**
2012	**2,009**
2013	**1,636**
2014	**1,399**
2015	**1,171**
Thereafter	**1,456**
	$9,917

b) Credit Instruments

As at December 31, 2010, the credit instruments approved but not yet disbursed were as follows:

	Total (000's)	**Average term**	**Average rate**
Residential mortgage loans	$5,503	4.63 years	3.56%
Commercial demand loans	$51,772	-	Prevailing rates on date disbursed
Commercial mortgage loans	$10,361	4.77 years	Prevailing rates on date disbursed
Lines of credit unfunded	$416,915	-	Prevailing rates on date disbursed

c) Contingencies

In the normal course of operations, Alterna Savings becomes involved in various claims and legal proceedings. While the final outcome with respect of claims and legal proceedings pending at December 31, 2010 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.

d) Guarantees

Letters of Credit
Arising through the normal course of business, Alterna Savings has guaranteed $8,307,000, 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 term 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 is the same as is held for loans. As at December 31, 2010, no liability has been recorded on the balance sheet as no letters of credit have been called upon.

Credit Card Agreement
In accordance with a credit card service agreement entered into in May 2005, Alterna Savings has guaranteed the credit card debt of its business account holders such that if a business account falls into arrears, the credit card service provider may request that Alterna Savings pay the amount due. Alterna Savings has legal recourse against the business account holder if required to pay any amounts in arrears. All credit decisions with respect to business accounts are made by Alterna Savings. As of December 31, 2010, no business accounts have been submitted to Alterna Savings for reimbursement by the credit card service provider.

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.

26. SEGMENT DISCLOSURES

Alterna Savings manages its business as one integrated operating segment as it operates principally in personal and commercial banking in the provinces of Ontario and Quebec. Accordingly, it has only one reporting segment for financial reporting purposes.

27. OTHER INFORMATION

a) Restricted Party Transactions

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

Loans to officers consist mainly of residential mortgages at posted rates less 2.25%, as well as personal loans and personal lines of credit at market rates less a discount based on the type and risk of the loan. 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 $4,658,000 (2009 - $1,936,000). There was approximately $125,000 (2009 - $39,000) in interest earned for the year which is recorded under interest income on the consolidated statement of income.

b) Expenses Relative to 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 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 $312,000 (2009 - $259,000) and other expenses incurred totalled $125,000 (2009 - $88,000). As at December 31, 2010, Alterna Savings' Board consisted of 15 Directors (2009 – 15 Directors) and Alterna Bank's Board consisted of 9 Directors (2009 – 9 Directors).

c) Executive Compensation

Effective October 1, 2009, 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 names of those officers and employees, their position held and remuneration paid during 2010 are as follows and in the format prescribed:

Name	Title	Salary	Bonuses	Benefits
John Lahey	President & Chief Executive Officer	$360,000	$375,000	$100,000
Carl Ramkerrysingh	SVP Personal and Business Services	220,000	65,000	25,000
José Gallant	SVP and Chief Financial Officer	200,000	60,000	23,000
Josette Gauthier	SVP Human Resources	170,000	40,000	21,000
Rebecca Robinson	VP, Information Technology	160,000	40,000	14,000

Executive management includes the President & CEO as well as employees in positions titled Vice-President or Senior Vice-President.

Alterna Savings manages executive compensation in accordance with policies which are reviewed and approved annually by the Board of Directors. In accordance with these policies, total cash compensation is targeted to be at the 50^{th} 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.

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 of Directors.

28. COMPARATIVE AMOUNTS

Certain 2009 comparative amounts have been reclassified to conform to the consolidated financial statement presentation adopted in 2010.