This offering statement must be delivered to every purchaser of the securities described herein prior to the purchaser becoming obligated to complete the purchase and, upon request, to any prospective purchasing member.

No official of the Government of the Province of Ontario has considered the merits of the matters addressed in this offering statement.

The securities being offered are not guaranteed by the Deposit Insurance Corporation of Ontario or any similar public agency.

The prospective purchaser of these securities should carefully review the offering statement and any other documents it refers to, examine in particular the section on risk factors beginning on page 21 and, further, may wish to consult a financial or tax advisor about this investment.

Alterna Savings and Credit Union Limited

OFFERING STATEMENT

dated August 29, 2011

MINIMUM $5,000,000 -- MAXIMUM $35,000,000
CLASS A SPECIAL SHARES, SERIES 3
(NON-CUMULATIVE, NON-VOTING,
NON-PARTICIPATING SPECIAL SHARES)

("Class A Investment Shares, Series 3")

The subscription price for each Class A Investment Share, Series 3 will be $1.00 per share, with a minimum of 1,000 shares per member which may be subscribed for $1,000.00, to a maximum of 200,000 shares per member which may be subscribed for $200,000.00, irrespective of any Class A Investment Shares, Series 1 or Series 2, the member may already hold.

There is no market through which these securities may be sold.

The purchaser of these securities may reverse his/her decision to purchase the securities if he/she provides notice in writing, or by facsimile, or by e-mail in combination with a telephone call, to the person from whom the purchaser purchases the security, within two days, excluding weekends and holidays, of having signed a subscription form.

The Class A Investment Shares, Series 3 are subject to the transfer and redemption restrictions under the Credit Unions and Caisses Populaires Act, 1994 and the restrictions under this offering statement as set out on pages 20 to 21.

THE SECURITIES OFFERED ARE NOT DEPOSITS. THE SECURITIES OFFERED ARE NOT INSURED. THE DIVIDENDS ON THE SECURITIES ARE NOT GUARANTEED.

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OFFERING STATEMENT SUMMARY

The following is a summary only and is qualified in its entirety by the more detailed information appearing elsewhere in this offering statement. A "Glossary of Terms" can be found at the end of this summary, prior to the detailed offering statement.

Alterna Savings and Credit Union Limited (the "Credit Union")

Alterna Savings and Credit Union Limited ("Alterna Savings") was created on April 1, 2005, as a result of the amalgamation of Metro Credit Union Limited ("Metro") and The Civil Service Co-operative Credit Society, Limited ("CS CO-OP").

CS CO-OP began operating in 1908, was incorporated in 1928 and became the first such entity formed under the *Co-operative Credit Act*, which was revised in 1932 and became the *Credit Unions Act* (Ontario). From its roots as a credit union for federal government employees, CS CO-OP evolved into a full service credit union with a broad bond of association and branches in Ontario in the National Capital Region, Kingston, the greater Toronto area, North Bay and Pembroke.

Metro was incorporated in August, 1949, as University of Toronto Employees' Credit Union Limited, a closed-bond credit union to serve all employees of the university. Its bond was expanded, in 1969, 1971, and 1972, to include the employees of the Ontario Institute for Studies in Education, of all post-secondary educational institutions located in Metropolitan Toronto, and of the Clarke Institute of Psychiatry, and, in 1973, it changed its name to Universities and Colleges (Toronto) Credit Union Limited. In 1994, after additional acquisitions resulted in an expanded bond covering any resident or employee in Metropolitan Toronto, it changed its name to Metro Credit Union Limited.

Alterna Savings is the sole owner of Alterna Holdings Inc., a holding company that owns Alterna Savings' investment in CS Alterna Bank, a Schedule I Bank under the *Bank Act*. As of May 31, 2011, CS Alterna Bank had assets of $175,145,000, constituting less than 10% of the consolidated assets of Alterna Savings, and the results of CS Alterna Bank's operations have been consolidated with those of Alterna Savings. All significant inter-company balances and transactions have been eliminated on consolidation.

Alterna Savings offers a full range of financial services and products to 107,550 members (as of May 31, 2011) through 22 branches, located in the Greater Toronto Area ("GTA"), the National Capital Region ("NCR"), Kingston, North Bay, and Pembroke, Ontario, and its Internet and telephone banking systems. Alterna Savings provides a full range of retail and commercial credit and non-credit financial services and products. See also "Business of Alterna Savings", on pages 2 to 10.

The Offering

Alterna Savings offers for sale to its individual members, at $1.00 per share, Class A Non-Cumulative, Non-Voting, Non-Participating, Redeemable Special Shares, Series 3 ("Class A Investment Shares, Series 3"), in the capital of Alterna Savings. Class A Investment Shares, Series 3, are special, non-membership shares and constitute part of the authorized capital of Alterna Savings. Subscriptions will be accepted from members of Alterna Savings for a minimum of 1,000 Class A Investment Shares, Series 3, and a maximum of 200,000 Class A Investment Shares, Series 3, irrespective of any Class A Investment Shares, Series 1 or Series 2, the member may hold. Subscription, purchase and redemption of these shares are exclusively through Alterna Savings' offices. Class A Investment Shares, Series 3, are not redeemable at the shareholder's option until after the end of the fifth fiscal year following the fiscal year in which those shares are issued. The Board will approve such redemption requests once annually, at its first Board meeting in each fiscal year once redemptions can legally occur. Alterna Savings will consider all requests made by the estates of deceased shareholders, before considering requests made by shareholders who have been expelled from membership in Alterna Savings, and only then all other requests. Requests in each category will be considered on a first come, first served basis. 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 Investment Shares, Series 3, issued and outstanding at the end of the prior fiscal year. Purchasers of Class A Investment Shares, Series 3, who are intending to include such shares in an RRSP contract should carefully review the redemption restrictions on page 20 before proceeding. Transfer of such shares will only be effected through Alterna Savings, and transfers are restricted to other members of Alterna Savings. Alterna Savings, at its option, may acquire the Class A Investment Shares, Series 3, at the Redemption Amount, for cancellation after a period of five years following the issuance of the shares. See "Description of Securities Being Offered" on pages 16 to 21.

Subscriptions for the Class A Investment Shares, Series 3, shall be accepted as of the date of this offering statement, and for a period of six months thereafter, or until the date on which subscriptions have been received for the maximum 35,000,000 Class A Investment Shares, Series 3, or until the date on which the Board, having received subscriptions for at least the minimum 5,000,000 Class A Investment Shares, Series 3, but not for the maximum 35,000,000 Class A Investment Shares, Series 3, and noting that six months has not yet passed since the date of this offering statement, resolves to close the offering, whichever shall occur first (the "Closing Date"). The shares so subscribed shall be issued within sixty days after the Closing Date (the "Issue Date").

The securities to be issued under this offering statement are not secured by any assets of Alterna Savings, and are not covered by deposit insurance or any other form of guarantee as to repayment of the principal amount or dividends. The Class A Investment Shares, Series 3, will qualify as Regulatory Capital, to the extent permitted and as defined in the Act.

Dividend Policy

The dividend policy of Alterna Savings' Board, as it relates to Class A Investment Shares, Series 3, shall be to pay a dividend or dividends in every year in which there are sufficient profits to do so while still fulfilling all other Regulatory Capital, liquidity, and operational requirements. The dividends on the Class A Investment Shares, Series 3, are Non-Cumulative, with the dividend rate to be set annually by the Board if and when the dividend is declared, subject to the provisions detailed on page 30 regarding the minimum dividend rate if such a dividend is declared (*i.e.*, not less than 4.5% for fiscal years commencing prior to the fifth anniversary of the issuance of the shares).

Dividends paid on Class A Investment Shares, Series 3, will be deemed to be interest and not dividends for tax purposes, and are therefore not eligible for the tax treatment given to dividends from taxable Canadian corporations, commonly referred to as the "dividend tax credit".

Use of Proceeds

If fully subscribed, the gross proceeds of this issue will be $35,000,000. The costs of issuing these securities are not expected to exceed $350,000, and these costs, approximating $298,000 after applicable tax savings, will be netted against the shares' value in members' equity. The estimated maximum net proceeds of this offering are $34,702,000. The principal use of the net proceeds, and the purpose of this offering, is to add to Alterna Savings' Regulatory Capital in order to provide for the future growth, development and stability of Alterna Savings, while maintaining a prudent cushion in the amount of Regulatory Capital above regulatory requirements.

Based on the total assets and Regulatory Capital at May 31, 2011, Alterna Savings' Leverage Ratio would increase to 5.66% if this offering is minimally subscribed and to 7.12% if fully subscribed. Based upon Alterna Savings' interim consolidated May 31, 2011 balance sheet, this offering would support additional growth of $778,976,000 if minimally subscribed, and $1,528,976,000 if fully subscribed, while respecting the regulatory minimum Leverage Ratio requirement of 4%.

Risk Factors

Investments in the Class A Investment Shares, Series 3, are subject to a number of risks, including regulatory redemption restrictions, the continuous need to maintain minimum Regulatory Capital levels, the uncertainty of payment of dividends, credit risk, market risk, liquidity risk, structural risk, operational risk, potential regulatory actions, reliance on key management, economic risk, and competitive risk. See "Risk Factors" on pages 21 to 29.

Summary Financial Information

This summary financial information has been derived from and should be read in conjunction with the more detailed financial statements attached hereto as Schedules A and B, including the notes to those statements, and Management's Discussion and Analysis beginning at page 41.

SUMMARY BALANCE SHEET
(in thousands)

	Unaudited May 31, 2011 (under IFRS[1])	December 31, 2010 (under CGAAP[2])	December 31, 2009 (under CGAAP)	December 31, 2008 (under CGAAP)
ASSETS				
Cash and cash equivalents	$86,714	$81,933	$166,222	$59,833
Investments	225,881	232,560	165,393	159,883
Loans to members, net of allowance for impaired loans	1,874,305	1,812,897	1,727,649	1,708,118
Property and equipment	10,665	10,898	9,736	12,452
Other assets	22,607	29,230	30,219	39,874
Total assets	$2,220,172	$2,167,518	$2,099,219	$1,980,160
LIABILITIES				
Members' deposits	$2,003,002	$1,997,139	$1,904,609	$1,774,887
Borrowings	57,578	0	30,000	34,700
Other liabilities	31,750	36,027	34,467	36,930
LIABILITIES QUALIFYING AS REGULATORY CAPITAL				
Membership Shares	1,560	1,578	1,779	1,898
MEMBERS' EQUITY				
Class A Investment Shares, Series 1	12,071	12,071	12,062	12,453
Class A Investment Shares, Series 2	9,777	9,443	9,348	9,270
Class B Shares, Series 1	2,396	2,446	2,609	2,822
Contributed surplus	19,282	19,282	19,282	19,282
Retained earnings and accumulated other comprehensive income/loss	82,756	89,532	85,063	87,918
Total liabilities and members' equity	$2,220,172	$2,167,518	$2,099,219	$1,980,160

[1] International Financial Reporting Standards
[2] Canadian generally-accepted accounting principles.

SUMMARY STATEMENT OF INCOME (in thousands)

	Unaudited Five Months Ended May 31, 2011 (under IFRS)	Year Ended December 31, 2010 (under CGAAP)	Year Ended December 31, 2009 (under CGAAP)	Year Ended December 31, 2008 (under CGAAP)
Interest income	$38,247	$90,115	$88,926	$90,004
Investment income	1,944	3,211	3,665	5,498
	40,191	93,326	92,591	95,502
Interest expense	14,356	34,482	40,018	46,278
Net interest income	25,835	58,844	52,573	49,224
Loan costs	724	1,313	1,362	767
	25,111	57,531	51,211	48,457
Other income	4,587	12,852	16,690	17,511
	29,698	70,383	67,901	65,968
Operating expenses	26,870	62,777	62,485	60,453
Operating income	2,828	7,606	5,416	5,515
Integration costs	0	0	0	(385)
Unrealized gains (losses) on financial instruments	226	(1,702)	(1,476)	7,764
Income before income taxes	3,054	5,904	3,940	12,894
Provision for (recovery of) income taxes	323	1,478	(198)	2,269
Net income	$2,731	$4,426	$4,138	$10,625

GLOSSARY OF TERMS

"Act" - the *Credit Unions and Caisses Populaires Act, 1994*, as now enacted or as the same may from time to time be amended, re-enacted or replaced.

"Agricultural Loan" - a loan to finance the production of cultivated or uncultivated field-grown crops; the production of horticultural crops, the raising of livestock, fish, poultry and fur-bearing animals; or the production of eggs, milk, honey, maple syrup, tobacco, wood from woodlots, and fibre and fodder crops.

"Administration" - a legal status ordered by the Deposit Insurance Corporation of Ontario ("DICO") in any of the following circumstances: (1) DICO, on reasonable grounds, believes that a credit union is conducting its affairs in a way that might be expected to harm the interests of members, depositors or shareholders or that tends to increase the risk of claims against the deposit insurer, but that Supervision by DICO as stabilization authority would, in this case, not be appropriate; (2) A credit union has failed to comply with an order of DICO made while the credit union was subject to Supervision; (3) DICO is of the opinion that the assets of a credit union are not sufficient to give adequate protection to its depositors; (4) A credit union has failed to pay any liability that is due or, in the opinion of DICO, will not be able to pay its liabilities as they become due; (5) after a general meeting and any adjournment of no more than two weeks, the members of a credit union have failed to elect the minimum number of directors required under the Act (currently five); (6) if a vacancy occurs in the board of a credit union resulting in there not being a quorum of directors in office, and a general meeting is not called promptly to reconstitute the board; or (7) DICO has received a report from the Superintendent of Financial Services that the Superintendent has ordered a credit union to cease operations; under which DICO has the power to: (a) Carry on, manage and conduct the operations of that credit union; (b) Preserve, maintain, realize, dispose of and add to the property of that credit union; (c) Receive the income and revenues of that credit union; (d) Exercise the powers of that credit union and of its directors, officers, and committees; (e) Exclude the directors of that credit union and its officers, committee members, employees and agents from its property and business; and (f) Require that credit union, with or without obtaining member and shareholder consent, to, (i) amalgamate with another credit union, (ii) dispose of its assets and liabilities, or (iii) be wound up.

"Basis Point" - one-hundredth of one percent (0.01%).

"Bridge Loan" - a loan to an individual made under the following circumstances:

1. The loan is for the purchase of residential property in which the purchaser will reside. The property must consist of four units or less.
2. The term of the loan is not greater than 120 days.
3. The funds from the sale of another residential property owned by the individual will be used to repay the loan.
4. The credit union must receive a copy of the executed purchase and sale agreement for both properties before the loan is made.
5. The conditions of each of the purchase and sale agreements must be satisfied before the loan is made.
6. The loan is fully secured by a mortgage on the residential property being sold or, before the loan is made, the borrower's solicitor has given the credit union an irrevocable letter of direction from the borrower stating that the funds from the sale of the residential property being sold will be remitted to the credit union.

"Class 2 Credit Union" - a credit union which, at any time after January 31, 2007, has total assets equal to or exceeding $50,000,000, or has made (or is deemed to have made) a Commercial Loan. A credit union may also apply to the Superintendent to be classified as a Class 2 Credit Union, and the Superintendent can make that classification.

"Commercial Loan" - a loan, other than any of the following types of loans, made for any purpose: an Agricultural Loan; a Bridge Loan; an Institutional Loan; a Personal Loan; a Mortgage Loan; an

Unincorporated Association Loan; a loan that consists of deposits made by the credit union with a financial institution, Central 1 Credit Union, La Fédération des caisses Desjardins du Québec, La Caisse centrale Desjardins du Québec or Credit Union Central of Canada; a loan fully secured by a deposit with a financial institution (including the credit union making the loan), Central 1 Credit Union, La Fédération des caisses Desjardins du Québec, La Caisse centrale Desjardins du Québec or Credit Union Central of Canada; a loan fully secured by debt obligations guaranteed by a financial institution other than the credit union making the loan, Central 1 Credit Union, La Fédération des caisses Desjardins du Québec, La Caisse centrale Desjardins du Québec or Credit Union Central of Canada; a loan that is fully secured by a guarantee of a financial institution other than the credit union making the loan, Central 1 Credit Union, La Fédération des caisses Desjardins du Québec, La Caisse centrale Desjardins du Québec or Credit Union Central of Canada; an investment in a debt obligation that is fully guaranteed by a financial institution other than the credit union making the loan, fully secured by deposits with a financial institution (including the credit union making the loan), or fully secured by debt obligations that are fully guaranteed by a financial institution other than the credit union making the loan; an investment in a debt obligation issued by the federal government, a provincial or territorial government, a municipality, or any agency of such a government or municipality; an investment in a debt obligation guaranteed by, or fully secured by securities issued by, the federal government, a provincial or territorial government, a municipality, or by an agency of such a government or municipality; an investment in a debt obligation issued by a league, Central 1 Credit Union, La Fédération des caisses Desjardins du Québec, or La Caisse centrale Desjardins du Québec; an investment in a debt obligation that is widely-distributed; an investment in shares or ownership interests that are widely-distributed; an investment in a participating share; or an investment in shares of a league, Central 1 Credit Union, La Fédération des caisses Desjardins du Québec, or La Caisse centrale Desjardins du Québec. A Commercial Loan includes the supply of funds for use in automated bank machines not owned and operated by the credit union supplying the funds.

"Escrow" - a form of trust agreement in which funds are temporarily placed under the control of a third party (trustee) until specific conditions, set out in advance, are met.

"Institutional Loan" - a loan given to the federal government or a federal government agency, a provincial or territorial government or an agency of one, a municipality or an agency of one, a school board or college funded primarily by the federal or a provincial or territorial government, or an entity primarily funded by the federal government, a provincial or territorial government, or a municipality.

"Leverage Ratio" - total Regulatory Capital divided by total assets (as “total assets” is defined in section 16(1) of Ontario Regulation 237/09).

"Membership Shares" - shares required, according to a credit union's By-Law, to maintain a membership in the credit union.

"Mortgage Loan" - loan that is secured by a mortgage on an individual condominium unit or a building with one to four units where at least one half of the floor area of the building is utilized as one or more private residential dwellings, occupied by the borrower, and to which any of the following apply:

1. The amount of the loan, together with the amount then outstanding of any mortgage having an equal or prior claim against the mortgaged property, does not exceed 80% of the value of the property when the loan is made.
2. The loan is insured under the *National Housing Act* (Canada), or guaranteed or insured by a government agency.
3. The loan is insured by an insurer licensed to undertake mortgage insurance.

"Non-Cumulative" - dividends not declared or paid for one fiscal year are not carried forward or added to the dividend of a following year but are forever extinguished.

"Non-Participating" - in case of dissolution, shareholders receive only the Redemption Amount (see below) and do not participate in receiving any of the residual value of the credit union's assets.

"Non-Voting" - holders vote only at special meetings as required by the Act.

"Personal Loan" - loan given to an individual for personal, family or household use; or to an individual or entity for any other use if the loan, and all other loans outstanding to that individual or entity, does not exceed $25,000.

"Redemption Amount" - the amount a shareholder receives on redemption or at which shares are transferred from one member to another; this amount is equal to the issue price of the shares ($1 per share) plus any dividends which have been declared but not yet paid.

"Regulatory Capital" - Membership Shares, Class A Shares, Class B Shares, contributed surplus, retained earnings, and a portion of Alterna Savings' non-specific allowance for impaired loans.

"Risk-Weighted Assets" – the absolute value of assets in specified categories is multiplied by a percentage, varying between 0% and 100% depending on the risk attributed to each category. The sum of all the categories is Alterna Savings' Risk-Weighted Assets.

"Risk-Weighted Assets Ratio" – total Regulatory Capital divided by Risk-Weighted Assets.

"Schedule I Banks" - Schedule I banks are domestic banks and are authorized under the *Bank Act* to accept deposits, which may be eligible for deposit insurance provided by the Canada Deposit Insurance Corporation.

"Special Resolution" - a resolution passed by two-thirds or more of the votes cast by or on behalf of the persons who voted in respect of that resolution.

"Substantial Portion" - assets having an aggregate value equal to or greater than 15 per cent of a credit union's assets at the end of its previous fiscal year.

"Supervision" - a legal status ordered by DICO when: (1) A credit union asks, in writing, that it be subject to supervision; (2) A credit union is not in compliance with prescribed Regulatory Capital or liquidity requirements; (3) DICO has reasonable grounds for believing that a credit union is conducting its affairs in a way that might be expected to harm the interests of members or depositors or that tends to increase the risk of claims against DICO; (4) A credit union or an officer or director of it does not file, submit or deliver a report or document required to be filed, submitted or delivered under this Act within the time limits outlined under this Act; (5) A credit union did not comply with an order of the Superintendent and the Superintendent has requested, in writing, that the credit union be subject to supervision; or (6) A credit union has failed to comply with an order of DICO; under which DICO, acting as stabilization authority, can: (a) order that credit union to correct any practices that the authority feels are contributing to the problem or situation that caused it to be ordered subject to DICO's supervision; (b) order that credit union and its directors, committee members, officers and employees not to exercise any powers of that credit union or of its directors, committee members, officers and employees; (c) establish guidelines for the operation of that credit union; (d) order that credit union not to declare or pay a dividend or to restrict the amount of a dividend to be paid to a rate or amount set by DICO; (e) attend meetings of that credit union's board and its credit and audit committees; and (f) propose By-Law for that credit union and amendments to its articles of incorporation.

"Syndicated Loans" – loan, including any related credit facilities made under a syndicated loan agreement, by a credit union acting as the syndicating credit union where:

1. The parties to the syndicated loan agreement are the borrower, the syndicating credit union and one or more of the following:
   i. Another credit union or its subsidiary or affiliate.
   ii. A league, Central 1 Credit Union, La Fédération des caisses Desjardins du Québec, La Caisse centrale Desjardins du Québec or Credit Union Central of Canada.
   iii. A financial institution other than a securities dealer.
2. Each of the parties to the syndicated loan agreement, other than the borrower, agrees to contribute a specified portion of the loan and to be bound by the terms and conditions of the syndicated loan agreement.
3. The syndicating credit union contributes at least 10 per cent of the loans, including any related credit facilities, and underwrites, disburses and administers them on behalf of the parties to the syndicated loan agreement.

"Unincorporated Association Loan" - loan to an unincorporated association or organization that is not a partnership registered under the *Business Names Act*, and that is operated on a non-profit basis for educational, benevolent, fraternal, charitable, religious or recreational purposes.

DETAILED OFFERING STATEMENT

The Credit Union

Alterna Savings and Credit Union Limited ("Alterna Savings") was created on April 1, 2005, as a result of the amalgamation of Metro Credit Union Limited ("Metro") and The Civil Service Co-operative Credit Society, Limited ("CS CO-OP").

CS CO-OP began operating in 1908, was incorporated in 1928 and became the first such entity formed under the *Co-operative Credit Act*, which was revised in 1932 and became the *Credit Unions Act* (Ontario). From its roots as a credit union for federal government employees, CS CO-OP evolved into a full service credit union with a broad bond of association and branches in Ontario in the National Capital Region, Kingston, the greater Toronto area, North Bay and Pembroke.

Metro was incorporated in August, 1949, as University of Toronto Employees' Credit Union Limited, a closed-bond credit union to serve all employees of the university. Its bond was expanded, in 1969, 1971, and 1972, to include the employees of the Ontario Institute for Studies in Education, of all post-secondary educational institutions located in Metropolitan Toronto, and of the Clarke Institute of Psychiatry, and, in 1973, it changed its name to Universities and Colleges (Toronto) Credit Union Limited. In 1994, after additional acquisitions resulted in an expanded bond covering any resident or employee in Metropolitan Toronto, it changed its name to Metro Credit Union Limited.

Alterna Savings is the sole owner of Alterna Holdings Inc., a holding company that owns Alterna Savings' investment in CS Alterna Bank, a Schedule I Bank under the *Bank Act*.

On October 2, 2000, CS CO-OP continued its indirectly wholly owned subsidiary, Civil Service Loan Corporation, as a Schedule II (*i.e*., not widely held) bank named CS Alterna Bank. CS Alterna Bank, due to changes in the *Bank Act* effective October 24, 2001, became a Schedule I (*i.e.*, Canadian, whether or not widely held) bank. As at May 31, 2011, CS Alterna Bank had two branches, located in Gatineau in Québec; as well, all Alterna Savings branches are acting as agents for CS Alterna Bank, accepting deposits and granting loans and mortgages on behalf of CS Alterna Bank. The agency agreement is governed by internal policies and procedures which have been shared with regulators of both entities. CS Alterna Bank has outsourced the majority of its processes to Alterna Savings; see "Material Contracts" on page 40.

The assets, liabilities, equity and operating results of all three subsidiaries have been consolidated with Alterna Savings' financial statements attached to this offering statement as Schedules A and B, and all significant inter-company balances and transactions have been eliminated on consolidation. The assets, liabilities, equity and income of the subsidiaries have been excluded from the calculation of the Leverage Ratios, Risk-Weighted Assets Ratios and liquidity ratios presented in this offering statement because their inclusion would reduce the meaningfulness of the ratio or percentage.

Alterna Savings' head office is located at 400 Albert Street, Ottawa, Ontario K1R 5B2.

Alterna Savings owns its premises on Albert Street in Ottawa and Lakeshore Boulevard West in Toronto, and leases its remaining premises. Alterna is undergoing a strategic review of its real estate holdings with the ultimate goal of optimizing its current assets coupled with improving the current work environment for Alterna's employees.

Alterna Savings offers a full range of financial services and products to 107,550 members (as of May 31, 2011) through 22 branches, located in the GTA, the NCR, Kingston, North Bay, and Pembroke, Ontario, and its Internet and telephone banking systems. Alterna Savings provides a full range of retail and commercial credit and non-credit financial services and products. See also “Business of the Credit Union”, below to page 10.

BUSINESS OF THE CREDIT UNION

General Description of the Business

An overview of the products and services offered by Alterna Savings follows:

Deposit Services

Alterna Savings provides a broad range of personal deposit accounts and services to its members. Retail financial products for individuals include Canadian-dollar savings and chequing accounts, U.S.-dollar chequing accounts, and an extensive variety of Canadian-dollar term deposit products in both long terms of one to five years, and short terms of 30 to 364 days. Alterna Savings also offers a full range of business savings and chequing accounts to serve the needs of its small business members. Registered investment options include registered retirement savings plans (“RRSPs”), registered retirement income funds (“RRIFs”), tax-free savings account (“TFSAs”), and registered education savings plans (“RESPs”). All registered plans are trusteed by Concentra Trust (“Concentra Trust”). Investment services also include mutual funds, full brokerage services, on-line trading of securities, and life insurance products through arrangements with Qtrade Canada Inc., Qtrade Securities Inc., Qtrade Asset Management Inc., and Qtrade Investor Inc. outlined at page 40. As at May 31, 2011, this relationship has enabled members of Alterna Savings to invest $419,000,000 in various mutual funds, equities and bonds.

Card Services

Alterna Savings has a network of nearly 100 Automated Banking Machines (“ABMs”) located throughout Ontario and Gatineau. Alterna Savings is also linked to the Interac®, Cirrus® System and CO-OP® networks and is a member of The Exchange® Network, giving members access to their accounts at point of sale terminals and ABMs well beyond its own branch network and throughout Ontario, Canada, and internationally. In addition, members have the option of conducting transactions using Alterna Savings’ Internet and telephone banking facilities.

Alterna Savings offers a MasterCard credit card through an arrangement with a third party. Alterna Savings does not hold the accounts receivable owing from its credit card holders. See page 39 for further information.

Lending Services

Alterna Savings, as a Class 2 Credit Union, is permitted to offer Personal Loans, Mortgage Loans, Bridge Loans, Commercial Loans, Agricultural Loans, Institutional Loans, Syndicated Loans and Unincorporated Association Loans, up to limits defined in its lending policies, which are required by regulation to meet a “prudent person” standard. Alterna Savings is also subject to a limit on loans to any one person and their "connected persons", as that phrase is defined in a regulation passed pursuant to the Act, of 25% of its Regulatory Capital, and Alterna Savings has further limited such loans to \$25,000,000. The Board has approved, and management follows, its lending policies in all areas to minimize the risk of loan losses. A variety of loan-related group insurance products are also available to members for all types of loans.

Personal Loans

Personal Loans consist of instalment loans, demand loans, and lines of credit. Alterna Savings' credit policy limits each unsecured Personal Loan to \$100,000, and each Personal Loan secured by deposits in Alterna Savings to \$1,000,000. Personal Loans, in the aggregate, should comprise 10% to 40% of Alterna Savings' loan portfolio. As at May 31, 2011, Alterna Savings' Personal Loan portfolio totalled \$247,000,000, representing 13.14% of Alterna Savings' gross loan portfolio.

Residential Mortgages

Alterna Savings offers Mortgage Loans and Bridge Loans to its members. It grants Mortgage Loans to individuals according to conventional mortgage lending standards for residential property. Alterna Savings limits each Mortgage Loan to \$1,500,000 and each Bridge Loan to \$500,000, and suggests that Mortgage Loans should comprise 40% to 75% of Alterna Savings' loan portfolio. As of May 31, 2011, approximately 66% of Alterna Savings' portfolio of Mortgage Loans consists of conventional mortgages; the remainder are high-ratio mortgages insured by mortgage insurance companies. As at May 31, 2011, Alterna Savings' portfolio of Mortgage Loans and Bridge Loans totalled \$918,000,000, representing 48.89% of Alterna Savings' gross loans outstanding. In addition, as at May 31, 2011, Alterna Savings' members had \$47,600,000 outstanding in Mortgage Loans which had been securitized by Alterna Savings through the securitization program discussed at page 40.

Commercial Loans

Commercial Loans consist of mortgages, term loans and operating lines of credit to small and medium-sized businesses, and mortgages that do not meet the definition of a Mortgage Loan because the property is non-owner-occupied, multi-unit residential or non-residential property. Each Commercial Loan is limited under Alterna Savings' credit policy to \$20,000,000, and that policy specifies that Commercial Loans, Institutional Loans and Syndicated Loans should comprise in the aggregate 10% to 50% of Alterna Savings' loan portfolio. As at May 31, 2011, Alterna Savings' Commercial Loan portfolio totalled \$713,000,000, representing 37.96% of Alterna Savings' gross loans outstanding.

Institutional Loans

Institutional Loans are loans to the federal or a provincial, territorial or municipal government or governmental agency, a school board or college funded primarily by the federal or a provincial or territorial government, or an entity funded primarily by the federal or a provincial or municipal government. Alterna Savings' credit policy limits any Institutional Loan to \$20,000,000, and specifies that Institutional Loans, Commercial Loans, and Syndicated Loans should comprise in the aggregate 10% to 50% of Alterna Savings' loan portfolio. As at May 31, 2011, Alterna Savings had no Institutional Loans outstanding.

Agricultural Loans

Agricultural Loans consist of mortgages, term loans and operating lines of credit to all types of agricultural businesses. These loans are not permitted under Alterna Savings' credit policy.

Unincorporated Association Loans

Unincorporated Association Loans consist of any loan made to an unincorporated association or organization that is not a partnership, and that is operated on a non-profit basis for educational, benevolent, fraternal, charitable, religious or recreational purposes. Any Unincorporated Association Loan cannot, under Alterna Savings' credit policy, exceed $50,000. As at May 31, 2011, Alterna Savings had no Unincorporated Association Loans outstanding.

Syndicated Loans

Syndicated Loans are loans made by a syndicating credit union and other financial institutions pursuant to a syndicated loan agreement, enabling several lenders to cooperate in making a larger loan than any one of them would have been able or willing to offer to the borrower individually. Alterna Savings' credit policy limits any Syndicated Loan to $20,000,000, and specifies that Syndicated Loans, Commercial Loans, and Institutional Loans should comprise in the aggregate 10% to 50% of Alterna Savings' loan portfolio. As at May 31, 2011, Alterna Savings' Syndicated Loan portfolio totalled $99,000,000; all of these loans are included in Alterna Savings' Commercial Loan portfolio, since they meet the definition of Commercial Loan.

Summary Lending Comments

For further information regarding any of these loan portfolios, see the "Loan Composition" heading in the table presented in the "Management Discussion and Analysis" section, on page 52, and also notes 5 and 6 in Alterna Savings' interim consolidated financial statements attached hereto as Schedule A at pages 28 to 30 of that Schedule, and notes 5 and 6 in its annual consolidated financial statements attached hereto as Schedule B hereto (see pages 12 and 13 of that Schedule).

Vision, Mission and Values Statement

Alterna Savings expresses its vision as being the leader in cooperative financial services. Its mission is to develop and share an exceptional level of financial expertise that is tailored to member needs, accessible to all, supportive of local communities and delivered by caring, professional employees. Alterna Savings' three core values are people first, excellence and integrity.

Corporate Social Responsibility

Alterna Savings has a strong commitment to corporate social responsibility. The five pillars on which Alterna Savings focuses its efforts are:

1. Economic development – Alterna Savings invests in other cooperatives, non-profits and small businesses operating in the communities it serves. An example of this is Alterna Savings' Community Micro-Loan Program, a program which offers loans of up to $15,000 to individuals who, despite a low credit rating or lack of credit history, have a good business plan and are likely to succeed as entrepreneurs. A 2009 study of the impact of this program by the Carleton Centre for Community Innovation found that it had a measureable, positive impact on the businesses funded, the families of the owners, and the communities in which the funded businesses operate through job creation and moves from social assistance to self-reliance.
2. Financial literacy – Alterna Savings advises its members about money management through newsletters and website articles, seminars and personal coaching.

3. Transparency and accountability – Alterna Savings reports on member loyalty, employee engagement, and its environmental footprint annually, and does a full social audit every three years.
4. Environmental footprint – Alterna Savings strives to reduce its carbon footprint by using suppliers with strong environmental practices and reducing waste (including recycling) in its offices.
5. Philanthropy – Alterna commits 2% of its pre-tax income to charitable donations, and also operates its Spare Change Program where members can agree to have the change “swept” from their accounts once a month and applied to the pool of funds of their choice. Alterna Savings’ three areas of focus in its charitable efforts are environmental sustainability, homelessness, and children’s and youth’s issues.

Bond of Association and Membership

The Act requires that a bond of association exist among members of a credit union. Typically, such bonds of association may be community-based, employer-based, or otherwise based on a group of members with a form of common association. Alterna Savings’ bond of association is as fully described in section 2.01 of its By-Law, and as summarized below:

- Persons who reside or who work in the Province of Ontario;
- Employees of Alterna Savings; and
- Various specified groups within the federal public service which were the traditional bond of association of CS CO-OP.

Alterna Savings also permits those not otherwise qualifying for membership under its bond of association to become members, but only if the aggregate number of such members does not exceed 3% of the membership of Alterna Savings, the admission to membership of such persons or entities has been specifically approved by the Board, and the names of such persons or entities admitted to membership on this basis are identified as such in the records of Alterna Savings.

Certain entities (*i.e.*, corporations, partnerships, and government ministries and agencies) may also become members.

Membership in Alterna Savings is granted to applicants who are within the bond of association by enabling them to purchase and hold the required number of Membership Shares as specified in paragraphs 2.03 of the By-Law of Alterna Savings. In summary, this section requires those members who are individuals under the age of 18 years to hold one one-dollar membership share of Alterna Savings, and those members who are entities or who are individuals of the age of 18 years or older to hold 15 one-dollar membership shares of Alterna Savings, except if the individual’s only business with Alterna Savings is as an annuitant of a group RRSP contributed to by his or her employer, in which case the individual is required to hold five one-dollar membership shares of Alterna Savings.

Members are also permitted by Alterna Savings’ By-Law to hold up to 1,000 Membership Shares in addition to the requirement outlined above.

Corporate Governance

The business of Alterna Savings is directed and governed by its Board, a group which, according to Alterna Savings' By-Law, is to consist of 14 individuals (reducing to 13 after Alterna Savings' annual general meeting in 2012, and to 12 after Alterna Savings' annual general meeting in 2013 and thereafter) who are elected at the annual general meeting of Alterna Savings pursuant to a procedure outlined in Alterna Savings' By-Law which permits voting both in advance of and also at the annual general meeting, by the members of Alterna Savings in full compliance with Alterna Savings' Membership Share requirement who have attained the age of 18 years as of the date of the annual general meeting. There are currently two vacancies on Alterna Savings' Board; see page 35 for further details. Each director is elected for a three-year term on a staggered basis to provide for continuity of Board members. No class or series of shares, other than Membership Shares, carries the right to vote for Alterna Savings' Board.

No person may serve as a director of Alterna Savings, or of its predecessors Metro or CS CO-OP, for more than 9 consecutive years.

The Board has established committees to assist in its effective functioning and to comply with the requirements of the Act. A Finance & Audit Committee has been formed and is composed of at least three members of the Board who are qualified to serve on the committee according to Alterna Savings' policies. Its mandate and duties are set out in the Regulations to the Act. The Finance & Audit Committee is responsible for, among other things, reviewing any financial statements which are presented to the members, either at an annual general meeting or within an offering statement, and making recommendations to the Board as to the approval of such financial statements.

A Nominating Committee has also been formed and is composed of at least three members of the Board who may not seek election to the Board while a member of the Nominating Committee. The mandate of the Nominating Committee is to solicit and receive nominations for election to the Board at the next annual general meeting, and to make recommendations to the membership regarding those candidates. Any two members of Alterna Savings may nominate a candidate for election to the Board.

Alterna Savings also has the following committees:

- Governance, consisting of the Chair, the Vice Chair, a representative from the board of directors of CS Alterna Bank, and at least two other directors, with a mandate to monitor and assess the corporate governance of the Board and the performance and overall compensation of the President and Chief Executive Officer and his direct reports;
- Human Resources, consisting of at least three directors, with a mandate to oversee human resources matters relating to employees other than the President and Chief Executive Officer and his direct reports, including responsibility for Alterna Savings' defined-benefit and defined-contribution registered pension plans; and
- Member Relations, consisting of at least three directors, with a mandate to assist the Board in fulfilling its responsibilities regarding member relations, members meetings, and community involvement activities, and to review strategic marketing and communication plans, initiatives supporting differentiation, target markets, and member loyalty, to monitor results.

Other Board committees formed from time to time are *ad hoc*, informal and advisory in nature.
The Board has overall responsibility for and authority within Alterna Savings, and directs the activities of senior management, to whom it has delegated certain responsibilities according to Board policies. Alterna Savings has senior management as outlined on page 35 of the offering statement. Alterna Savings has 515 employees, consisting of 443 full-time and 72 part-time employees, the part-time employees equating to approximately 24 full-time positions. For the names, municipality of residence, offices with Alterna Savings and the present principal occupations of the directors and senior managers of Alterna Savings as of the date of this offering statement, see "Directors and Senior Management", beginning on page 34 of the offering statement.

The duties, powers and standards of care and performance for boards of directors, officers and committee members of credit unions are specified in the Act and the regulations passed pursuant to it, and include a duty to act honestly, in good faith, and with a view to the best interest of the credit union, and to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Business Strategy

The strategic direction of Alterna Savings' 2011 – 2015 strategic plan is to be differentiated on the basis of service leadership within targeted market segments, to drive profitable growth to deliver quality, sustainable service to the membership, to be a strong regional credit union that enjoys sufficient scale and economies to be sustainable while acting small enough to be relevant to individual communities and segments of members, and to leverage existing infrastructure to create new opportunities. Key performance indicators are member loyalty, operating efficiency, employee engagement, return on average assets, and growth rate.

Alterna Savings' current strategy for CS Alterna Bank is to focus on the bank's operations in Gatineau, Québec.

In the normal course, Alterna monitors and adjusts its strategy as appropriate in response to changes in market conditions.

For further information see page 41, under the heading "Strategic Plan".

The Regulatory Framework

The Credit Unions and Caisses Populaires Act, 1994 (See also "Capital Adequacy", beginning on page 9)
Credit unions and caisses populaires in Ontario are governed by the *Credit Unions and Caisses Populaires Act, 1994*, with its accompanying regulations and guidelines (collectively referred to as the "Act"). The Deposit Insurance Corporation of Ontario ("DICO") is charged with the responsibility of exercising certain powers and performing certain duties that are conferred or imposed by the Act. Among these duties is monitoring compliance with section 84 of the Act, which requires that adequate and appropriate forms of Regulatory Capital and liquidity be maintained by credit unions and caisses populaires. Credit unions and caisses populaires which do not meet the minimum Regulatory Capital levels required may be granted a variation of the Regulatory Capital requirements by DICO, subject to such terms and conditions as it may impose.

DICO is a provincial Crown corporation which is also responsible for insuring deposits made by members in credit unions and caisses populaires, in accordance with the requirements of the Act and the policy of deposit insurance. DICO is also able to impose certain requirements as a condition of continuing its deposit insurance coverage and, in the event that a credit union or caisse populaire fails to comply and is believed to represent a threat to the deposit insurance fund, has broader power to take corrective action, which may include placing the credit union under Supervision or Administration, should circumstances so warrant. DICO has rated Alterna Savings on its differential premium system, enabling calculation of Alterna Savings' deposit insurance premium for its fiscal year ending December 31, 2011, and its insurance is in place and in good standing regarding that fiscal year. Alterna Savings is required to report to DICO immediately any actual or anticipated event which is likely to have a material impact on Alterna Savings' financial position and increase DICO's insurance risk. In that event, DICO reserves the right to impose other terms, conditions, or requirements as DICO deems appropriate.

Credit Union Central of Ontario and Central 1

Each province in Canada has one or more central credit unions that serve their member credit unions in the province and in Ontario, one of these bodies is Central 1 Credit Union. Central 1 was formed through a merger of Credit Union Central of British Columbia ("CUCBC") and Credit Union Central of Ontario ("CUCO") on July 1, 2008. As an incorporated association owned by its approximately 119 member credit unions in Ontario and 45 member credit unions in British Columbia, Central 1 provides liquidity management, payments, Internet and trade association services to its member credit unions.

As the central banker for its member credit unions, Central 1 provides, through an arrangement with a third party, centralized cheque clearing, and itself provides lending services to member credit unions. Lending services include overdraft facilities, demand loans, and term loans at fixed and variable rates.

Central 1 also undertakes government relations, economic forecasting, and market research and planning.

As a member of Credit Union Central of Canada ("CUCC"), Central 1 and its member credit unions enjoy access to national government relations efforts, national marketing and research, and a voice in the World Council of Credit Unions, a world-wide association of national credit union associations of which CUCC is a member.

To become a member of Central 1, Alterna Savings must purchase membership shares calculated based on the percentage of its total assets relative to the system's total assets as of the preceding calendar year end. Alterna Savings must also maintain a liquidity reserve deposit at Central 1 equal to 6% of its total assets, and pay membership dues which are calculated using a formula which is based on Alterna Savings' membership. As at May 31, 2011, Alterna Savings' membership in Central 1 is in good standing.

As a pre-condition of the merger to form Central 1, CUCO was required to divest itself of investments in certain third party asset-backed commercial paper ("ABCP"). The resolution approved the creation of a limited partnership (the "Partnership") to acquire these investments funded by member credit unions in proportion to their share investment in CUCO. As a result, on July 1, 2008, immediately prior to the merger of CUCO and CUCBC, the excluded ABCP with a total par value of $186,916,000 was acquired by the Partnership at its estimated fair value of $133,564,000, including accrued interest, net of expenses, and other assets. As there was no liquid market in these ABCP investments, the fair values used to determine the acquisition price were provided by Edenbrook Hill Capital Ltd., a firm engaged by CUCO to provide an independent valuation of these assets underlying the ABCP investments.

Members of CUCO were required to purchase units in the Partnership based on their proportionate share ownership in CUCO prior to the date of the merger. As a result, Alterna Savings was required to purchase units in the Partnership with a total fair value of $12,535,000 on the acquisition date.

In January 2009, the restructuring of the ABCP investments took place as part of the Pan Canadian Investors Committee's restructuring. The Partnership's ABCP investments were exchanged for Restructured Asset Backed Notes (RABN).

Alterna Savings' investment in the Partnership is classified as a held-for-trading financial instrument, and is accounted for at fair value. The Partnership has also designated the RABN's as held-for-trading. Accordingly, the value of the RABN investments has been adjusted to the current market value as determined by an independent valuator, and is recorded on Alterna Savings' interim consolidated May 31, 2011 financial statements at $10,740,000 net of past distributions and a recognized permanent impairment in the value of the RABNs. As there is still no liquid market in these investments, third party valuations on the assets underlying the ABCP investments were performed using all available information.

Tier 1 and Tier 2 Regulatory Capital

Capital is defined in the general regulation passed pursuant to the Act as a credit union's Tier 1 capital and Tier 2 capital. Tier 1 capital, regarded as the most permanent form of capital, includes Alterna Savings' Membership Shares and retained earnings, and that portion of the Class A Shares, Series 1, 2 and 3, and the Class B Investment Shares, Series 1 (excluding the Class A Shares, Series 1 and 2, and the Class B Shares, Series 1, if any, issued on or after October 1, 2009), which are not eligible to be redeemed in the twelve months following the date of the determination (*i.e.*, 100%, because redemption is entirely at the Board's discretion). Alterna Savings' Tier 2 capital includes any Class A Shares, Series 1 and 2, and any Class B Shares, Series 1, issued after October 1, 2009, and a portion of Alterna Savings' non-specific loan loss allowance. A credit union, to the extent that its Tier 2 capital exceeds its Tier 1 capital, may not include the excess Tier 2 capital as Regulatory Capital. Since Alterna Savings' Tier 1 capital at all times exceeds its Tier 2 capital, both its Tier 1 capital and also its Tier 2 capital are included in Regulatory Capital.

Capital Adequacy

As at May 31, 2011 and December 31, 2010, 2009 and 2008, Alterna Savings was in compliance with the Regulatory Capital adequacy requirements of the Act, as indicated under the "Compliance with Capital Requirements" heading of the table at page 52 of the offering statement.

Based on the total assets and Regulatory Capital at May 31, 2011, Alterna Savings' Leverage Ratio would increase to 5.66% if this offering is minimally subscribed and to 7.12% if fully subscribed. Based upon Alterna Savings' interim May 31, 2011 balance sheet, this offering would support additional growth of $778,976,000 if minimally subscribed, and $1,528,976,000 if fully subscribed, while still maintaining the Leverage Ratio at no less than the regulatory minimum requirement of 4%.

The growth possible for Alterna Savings, if this offering is fully or minimally subscribed, is calculated as follows. If this offering is fully subscribed, Alterna Savings will have Regulatory Capital of $145,849,000. Dividing this amount of Regulatory Capital by the required Leverage Ratio of 4.00% reveals that Alterna Savings would then have sufficient Regulatory Capital to support assets of

$3,646,237,000. Subtracting from this level of assets Alterna Savings' total assets as reported on its interim May 31, 2011 balance sheet indicates that Alterna Savings could grow by $1,528,976,000 if this offering is fully subscribed. Alterna Savings' Leverage Ratio in this case will be 7.12%, assuming no growth from the assets reported on Alterna Savings' interim financial statements as at May 31, 2011.

If this offering is only minimally subscribed, however, Alterna Savings will have Regulatory Capital of $115,849,000. Dividing this level of Regulatory Capital by the required Leverage Ratio of 4.00% reveals that Alterna Savings would then have sufficient Regulatory Capital to support assets of $2,896,237,000. Subtracting from this level of assets Alterna Savings' total assets as reported on its interim May 31, 2011 balance sheet indicates that Alterna Savings could grow by $778,976,000 if this offering is minimally subscribed. Alterna Savings' Leverage Ratio in this case would be 5.66%, assuming no growth from the assets reported on Alterna Savings' interim financial statements as at May 31, 2011.

Other

As of December 31, 2009, there was a deficit of $2,894,000 on a hypothetical wind-up basis in Alterna Savings' defined benefit pension plan, although the plan was not in deficit on a going-concern basis. Alterna is currently funding this deficit through monthly amortization payments over a 5-year period.

Additional Information

For more information regarding Alterna Savings' operations, see "Management Discussion and Analysis" beginning on page 41, the interim consolidated financial statements as at May 31, 2011 attached hereto as Schedule A, and the annual consolidated financial statements as at December 31, 2010, 2009 and 2008 attached hereto as Schedule B.

CAPITAL STRUCTURE OF THE CREDIT UNION

Alterna Savings has four classes of shares in its capital structure: Membership Shares, Class A Special Shares (the "Class A Shares"), Class B Special Shares (the "Class B Shares") and Class C Special Shares (the "Class C Shares"), of which the Class A Shares, the Class B Shares, and the Class C Shares are issuable in series. Alterna Savings has created and authorized three series of Class A Shares (the "Class A Investment Shares, Series 1", the "Class A Investment Shares, Series 2", and the "Class A Investment Shares, Series 3"), and one series of the Class B Shares (the "Class B Shares, Series 1"). No series of Class C Shares has been authorized, and no Class C Shares are outstanding, as of the date hereof.

The following represents a summary of the rights of the Membership Shares, the Class B Shares, Series 1, and the Class A Shares, Series 1 and Series 2, in the capital structure of Alterna Savings regarding dividends, return of capital on dissolution, redeemability at the holder's initiative, redeemability at Alterna Savings' initiative, voting, and treatment of shares as Regulatory Capital. Information on the Class A Investment Shares, Series 3 follows, beginning on page 16 under the heading "Description of Securities Being Offered":

	Membership Shares	Class B Shares, Series 1	Class A Investment Shares, Series 1	Class A Investment Shares, Series 2
Right				
Dividends	The holders of the Membership Shares are entitled, after payment of dividends to holders of the Class A Investment Shares, Series 1, 2, and 3, and the Class B Shares, Series 1, of Alterna Savings, to receive Non-Cumulative cash or share dividends if, as and when declared by the Board. Dividends may be paid in the form of cash or Class B Shares. Dividends are taxed as interest income and not as dividends.	The holders of Class B Shares, Series 1, are entitled, in preference to holders of the Membership Shares and any other class of shares ranking junior to the Class B Shares, Series 1, but junior to the holders of the Class A Investment Shares, Series 1, 2 and 3, to receive Non-Cumulative cash or share dividends if, as, and when declared by the Board. Holders of Class B Shares, Series 1, may, however, consent, by majority vote at a meeting of those shareholders, to the prior payment of dividends to holders of a junior class of shares. Dividends are taxed as interest income and not as dividends.	The holders of Class A Investment Shares, Series 1, are entitled, in preference to the holders of the Class B Shares, Series 1, the Membership Shares, and any other class of shares ranking junior to the Class A Shares, but ranking equally with the Class A Investment Shares, Series 2 and Series 3, to receive Non-Cumulative cash or stock dividends if, as, and when declared by the Board. If the Board exercises its discretion to pay a dividend regarding any fiscal year beginning prior to September 1, 2012, the dividend rate must be at least 5.63%, being the rate which was set by the Board at its first Board meeting following the 5th anniversary of the first issuance of the shares by CS CO-OP. Holders of Class A Investment Shares, Series 1, may, however, consent, by majority vote at a meeting of those shareholders, to the prior payment	The holders of Class A Investment Shares, Series 2, are entitled, in preference to the holders of the Class B Shares, Series 1, the Membership Shares, and any other class of shares ranking junior to the Class A Shares, but ranking equally with the Class A Investment Shares, Series 1 and Series 3, to receive Non-Cumulative cash or stock dividends if, as, and when declared by the Board. Holders of Class A Investment Shares, Series 2, may, however, consent, by majority vote at a meeting of those shareholders, to the prior payment of dividends to holders of a junior class of shares. Dividends are taxed as interest income and not as dividends.

	Membership Shares	Class B Shares, Series 1	Class A Investment Shares, Series 1	Class A Investment Shares, Series 2
Right				
			of dividends to holders of a junior class of shares. Dividends are taxed as interest income and not as dividends.	
Return of capital on dissolution	The holders of the Membership Shares are entitled, on dissolution of Alterna Savings, to receive an amount representing equal portions of the assets or property of Alterna Savings remaining after payment of all Alterna Savings' debts and obligations, including redemption of the Class A Investment Shares, Series 1, Series 2, and Series 3, and the Class B Shares, Series 1.	The holders of Class B Shares, Series 1 are entitled, in preference to the holders of the Membership Shares and any other class of shares ranking junior to the Class B Shares, Series 1, but junior to the holders of the Class A Investment Shares, Series 1, Series 2, and Series 3, to receive the Redemption Amount for each share held upon the liquidation, dissolution, or winding up of Alterna Savings, after payment of all of Alterna Savings' other debts and obligations.	The holders of Class A Investment Shares, Series 1, are entitled, in preference to the holders of the Class B Shares, Series 1, the Membership Shares, and any other class of shares ranking junior to the Class A Shares, but equally with the Class A Investment Shares, Series 2 and Series 3, to receive the Redemption Amount for each share held upon the liquidation, dissolution, or winding up of Alterna Savings, after payment of all of Alterna Savings' other debts and obligations.	The holders of Class A Investment Shares, Series 2, are entitled, in preference to the holders of the Class B Shares, Series 1, the Membership Shares, and any other class of shares ranking junior to the Class A Shares, but equally with the Class A Investment Shares, Series 1 and Series 3, to receive the Redemption Amount for each share held upon the liquidation, dissolution, or winding up of Alterna Savings, after payment of all of Alterna Savings' other debts and obligations.
Redeemability at the holder's initiative (Retraction)	The holder of Membership Shares has no ability to redeem his or her Membership Shares held. See, however, the Credit Union's ability to redeem Membership Shares at its initiative, as outlined under the heading "Redeemability at Alterna Savings' initiative", beginning on page 14.	A holder of the Class B Shares, Series 1, is not entitled to require Alterna Savings to redeem his or her shares at any time, but may request such a redemption at any time. The Board may, at its discretion, approve any requested redemption. Any	Holders of the Class A Investment Shares, Series 1, may request retraction during the six-month period preceding the 5th or any subsequent anniversary of the original issuance of these shares by CS CO-OP. Redemptions are considered and may	Any holder of Class A Investment Shares, Series 2, may request retraction at any time 5 years or more after the original issuance of these shares by Metro. Further, any holder of Class A Investment Shares, Series 2, who holds those shares in an

	Membership Shares	Class B Shares, Series 1	Class A Investment Shares, Series 1	Class A Investment Shares, Series 2
Right				
		Class B Shares, Series 1, issued after October 1, 2009 are therefore not, as of the date hereof, “qualifying shares”, as that phrase is defined in Ontario Regulation 237/09, and are therefore treated as Tier 2 rather than Tier 1 Regulatory Capital. In no case shall the total number of Class B Shares, Series 1, redeemed in any fiscal year exceed 10% of the issued and outstanding Class B Shares, Series 1, at the beginning of that fiscal year, and in no case shall a redemption occur which would cause Alterna Savings to fail to comply with Regulatory Capital and liquidity requirements.	be approved by the Board, and, if approved, occur during the 60-day period following the anniversary. Any Class A Investment Shares, Series 1, issued after October 1, 2009 are therefore not, as of the date hereof, “qualifying shares”, as that phrase is defined in Ontario Regulation 237/09, and are therefore treated as Tier 2 rather than as Tier 1 Regulatory Capital. In no case shall the total number of Class A Investment Shares, Series 1, redeemed in any fiscal year exceed 10% of the issued and outstanding Class A Investment Shares, Series 1, at the beginning of that fiscal year, and in no case shall a redemption occur which would cause Alterna Savings to fail to comply with Regulatory Capital and liquidity requirements.	RRIF who requires retraction in order to withdraw the minimum amount required from that RRIF in the year, or who holds those shares in an RRSP and requires retraction to invest the proceeds of that RRSP into a RRIF, may request redemption at any time 5 years or more after the issuance of those shares by Metro, but only for the specified purpose. Further, the estate of a holder of Class A Investment Shares, Series 2, who has died, and any holder of those shares who has been expelled from membership in Alterna Savings, may request retraction at any time. Requests are held until June 30 and December 31 of each year, and prioritized based on the nature of the request. Any Class A Investment Shares, Series 2, issued after October 1, 2009 are therefore not, as of the date hereof, “qualifying shares”, as that phrase is defined in Ontario Regulation 237/09,

	Membership Shares	Class B Shares, Series 1	Class A Investment Shares, Series 1	Class A Investment Shares, Series 2
Right				
				and are therefore treated as Tier 2 rather than as Tier 1 Regulatory Capital. In no case shall the total number of Class A Investment Shares, Series 2, redeemed in any fiscal year exceed 10% of the issued and outstanding Class A Investment Shares, Series 2, at the beginning of that fiscal year, and in no case shall a redemption occur which would cause Alterna Savings to fail to comply with Regulatory Capital and liquidity requirements.
Redeemability at the Credit Union's initiative	Upon a member's death or withdrawal or expulsion from membership in Alterna Savings, Alterna Savings must redeem, and, when Alterna Savings reduces its Membership Share requirement, Alterna Savings may redeem, the Membership Shares held at the amount paid up for each such Membership Share, plus any declared but unpaid dividends thereon, unless such redemption would cause Alterna Savings to fail to comply with Regulatory Capital and liquidity requirements.	Alterna Savings may at its initiative redeem, at the Redemption Amount, the Class B Shares, Series 1, held by any shareholder who dies or is expelled from membership in Alterna Savings. In no case shall the total number of Class B Shares, Series 1, redeemed in any fiscal year exceed 10% of the issued and outstanding Class B Shares, Series 1, reported on Alterna Savings' annual consolidated financial statements	Alterna Savings may at its initiative redeem, subject to continued compliance with Regulatory Capital and liquidity requirements, at the Redemption Amount, all or any portion of the Class A Investment Shares, Series 1, outstanding at any time five years or more after the shares were originally issued by CS CO-OP.	Alterna Savings may at its initiative redeem, subject to continued compliance with Regulatory Capital and liquidity requirements, at the Redemption Amount, all or any portion of the Class A Investment Shares, Series 2, outstanding at any time five years or more after the shares were originally issued by Metro.

	Membership Shares	Class B Shares, Series 1	Class A Investment Shares, Series 1	Class A Investment Shares, Series 2
Right				
		for the preceding fiscal year.		
Voting	Each member of Alterna Savings in full compliance with Alterna Savings' Membership Share requirement and over the age of 18 years has one vote on any matter considered by a membership meeting of Alterna Savings, regardless of the number of Membership Shares held.	Class B Shares, Series 1, do not carry any voting rights, except when the Act requires that these shares carry voting rights. The Act requires that these shares have voting rights at a meeting of the holders of the Class B Shares, Series 1, when Alterna Savings is seeking the approval of those shareholders for a fundamental change (*i.e.*, the sale of more than 15% of Alterna Savings' assets, the purchase of assets valued at more than 15% of Alterna Savings' assets, the amalgamation of Alterna Savings, the dissolution of Alterna Savings, an amendment to its articles of incorporation that directly affect the terms and conditions of the Class B Shares, Series 1, or an application for a Certificate of Approval for its continuance under another statute or jurisdiction).	Class A Investment Shares, Series 1, do not carry any voting rights, except when the Act requires that these shares carry voting rights. The Act requires that these shares have voting rights at a meeting of the holders of the Class A Investment Shares, Series 1, when Alterna Savings is seeking the approval of those shareholders for a fundamental change (*i.e.*, the sale of more than 15% of Alterna Savings' assets, the purchase of assets valued at more than 15% of Alterna Savings' assets, the amalgamation of Alterna Savings, the dissolution of Alterna Savings, an amendment to its articles of incorporation that directly affect the terms and conditions of the Class A Investment Shares, Series 1, or an application for a Certificate of Approval for its continuance under another statute or jurisdiction).	Class A Investment Shares, Series 2, do not carry any voting rights, except when the Act requires that these shares carry voting rights. The Act requires that these shares have voting rights at a meeting of the holders of the Class A Investment Shares, Series 2, when Alterna Savings is seeking the approval of those shareholders for a fundamental change (*i.e.*, the sale of more than 15% of Alterna Savings' assets, the purchase of assets valued at more than 15% of Alterna Savings' assets, the amalgamation of Alterna Savings, the dissolution of Alterna Savings, an amendment to its articles of incorporation that directly affect the terms and conditions of the Class A Investment Shares, Series 2, or an application for a Certificate of Approval for its continuance under another statute or jurisdiction).
Treatment as	Alterna Savings	Alterna Savings	Alterna Savings	Alterna Savings

	Membership Shares	Class B Shares, Series 1	Class A Investment Shares, Series 1	Class A Investment Shares, Series 2
Right				
Regulatory Capital	includes all of its Membership Shares as Tier I Regulatory Capital.	includes all of the Class B Shares, Series 1, issued prior to October 1, 2009, as Tier I Regulatory Capital. Any Class B Shares, Series 1, issued on or after October 1, 2009 are included as Tier 2 Regulatory Capital.	includes all of the Class A Investment Shares, Series 1, issued prior to October 1, 2009, as Tier I Regulatory Capital. Any Class A Investment Shares, Series 1, issued on or after October 1, 2009 are included as Tier 2 Regulatory Capital.	includes all of the Class A Investment Shares, Series 2, issued prior to October 1, 2009, as Tier I Regulatory Capital. Any Class A Investment Shares, Series 2, issued on or after October 1, 2009 are included as Tier 2 Regulatory Capital.

CAPITAL STRUCTURE OF ALTERNA SAVINGS' SUBSIDIARIES

The capital structure of Alterna Savings' subsidiaries is as follows:

1. The capital of Alterna Holdings Inc. is comprised of an unlimited number of common shares. Alterna Savings owns all of the issued and outstanding shares of this corporation.
2. The capital of CS Alterna Bank is comprised of an unlimited number of common shares. Alterna Holdings Inc. owns all of the issued and outstanding shares of this corporation.

DESCRIPTION OF SECURITIES BEING OFFERED

Class A Investment Shares, Series 3

<u>Issue</u>
Class A Investment Shares, Series 3, issuable at $1.00 each, will only be issued to members of Alterna Savings. If the purchaser is a natural person (*i.e.*, an individual), he or she must be at least 18 years of age to purchase Class A Investment Shares, Series 3. Legal persons (*e.g.*, corporations, partnerships, and trusts) may purchase Class A Investment Shares, Series 3.

Alterna Savings had obtained all necessary regulatory approvals from the Autorité des marchés financiers allowing it to sell these securities to members who are Québec residents.

<u>Dividends</u>
The holders of Class A Investment Shares, Series 3, are entitled, in preference to holders of the Class B Shares, Series 1, and of the Membership Shares, but equally with the holders of all other series of Class A Shares, including the Class A Investment Shares, Series 1 and Series 2, to receive dividends if, as and when declared by the Board. Holders of the Class A Investment Shares, Series 3, may, however, by majority vote at a special meeting, consent to the prior payment of dividends to holders of a junior class of shares.

This annual dividend rate, if and when a dividend is declared prior to the first Minimum Dividend Adjustment Date as outlined below, will not be less than 4.5%. This minimum annual dividend rate shall not be construed to prevent the Board from declaring a pro-rated dividend where Class A Investment Shares, Series 3, are outstanding for only a portion of a fiscal year, provided that the annual rate which is pro-rated equals or exceeds the minimum annual dividend rate. This minimum annual rate will remain in effect for fiscal years beginning prior to the fifth anniversary of the initial issuance of the shares. The minimum annual dividend rate will be adjusted at the final Board meeting in the fifth fiscal year following the fiscal year in which the initial issuance of shares hereunder occurs, and each fiscal year thereafter (each such Board meeting a "Minimum Dividend Adjustment Date"). Board policy states that the new minimum annual dividend rate for each one year period following a Minimum Dividend Adjustment Date will not be less than 125 Basis Points above the yield on the monthly series of the Government of Canada five-year benchmark bond, as published by the Bank of Canada Internet site, www.bankofcanada.ca (CANSIM identifier V122540), for the month preceding the month in which the Minimum Dividend Adjustment Date occurs. The Non-Cumulative dividend is payable if and when declared by the Board. It is therefore possible, in spite of the minimum dividend rate as outlined above, that no dividend will be declared and paid regarding a particular fiscal year of the Credit Union.

The payment of such dividends may be made in cash, in Class A Investment Shares, Series 3, or in a combination of these; Board and management currently anticipate, however, that dividends on the Class A Investment Shares, Series 3, will be paid in cash.

Note that dividends paid by credit unions currently are not treated as dividends, but are instead treated as interest, for Canadian income tax purposes. Dividends paid on the Class A Investment Shares, Series 3, will therefore not be eligible for the tax credit given to shareholders who receive dividends from taxable Canadian corporations.

For a discussion of Alterna Savings' dividend policy regarding Class A Investment Shares, Series 3, see pages 29 through 31.

Canadian Federal Income Tax Considerations

The following summary has been prepared by management, of the principal Canadian federal income tax consequences applicable to a holder of a Class A Investment Share, Series 3, who acquires the share pursuant to this offering and who, for the purposes of the *Income Tax Act* (Canada) (the "Act"), is resident in Canada and holds the share as capital property.

This summary is based on the facts contained in this offering statement and based upon management's understanding of the provisions of the Act and the regulations thereunder as they currently exist and current published administrative policies and assessing practices of the Canada Revenue Agency (the "CRA"). This summary takes into account specific proposals to amend the Act and the regulations thereunder that have been publicly announced by the Minister of Finance (Canada) prior to the date hereof. There can be no assurance that these proposals will be enacted in their current form or at all, or that the CRA will not change its administrative and assessing practices.

This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial decision or action. This summary does not also take into account provincial, territorial or foreign tax legislation or considerations. No advance income tax ruling has been requested or obtained in connection with this offering statement, and there is a risk that the CRA may have a different view of the income tax consequences to holders from that described herein. **INVESTORS ARE CAUTIONED THAT THIS COMMENTARY IS OF A GENERAL NATURE ONLY AND IS NOT INTENDED TO CONSTITUTE ADVICE TO ANY PARTICULAR INVESTOR. INVESTORS SHOULD SEEK INDEPENDENT ADVICE FROM THEIR OWN TAX ADVISORS.**

Dividends

A holder of a Class A Investment Share, Series 3, will be required to include in computing income the dividends paid on the shares, whether paid in cash or in the form of additional shares. Dividends paid to a holder of a Class A Investment Share, Series 3, are deemed to be interest for Canadian income tax purposes. This income will be subject to income tax in the same manner as other interest income.

Redemption

On a redemption of a Class A Investment Share, Series 3, to the extent that the redemption proceeds exceed the paid-up capital of the share, the excess is deemed to be interest received by the holder of the Class A Investment Share, Series 3. This interest must be included in computing the income of the holder in the year of redemption. The proceeds of disposition under these circumstances are reduced by the amount of deemed interest. To the extent that the proceeds of disposition exceed (or are exceeded by) the adjusted cost base and reasonable disposition costs, a capital gain (or capital loss) may be realized and taxed as described below.

Other Dispositions

The disposition of a Class A Investment Share, Series 3, to another member, may give rise to a capital gain (or capital loss) to the extent that the proceeds of disposition exceed (or are exceeded by) the aggregate of the adjusted cost base of the Class A Investment Share, Series 3, and reasonable disposition costs. One-half of the capital gain is included in computing the income of the holder of the Class A Investment Share, Series 3, and one-half of any capital loss may be deducted but only against capital gains of the holder. Unused capital losses may be carried back to the three preceding taxation years to offset capital gains in those years, and they may be carried forward indefinitely. Under certain specific circumstances, the capital loss may be denied and therefore not available to offset capital gains of the holder. In addition, if certain criteria are met, an allowable capital loss may be considered a business investment loss and may be applied to reduce other income of the holder. This loss or a portion thereof may be carried back to the three preceding taxation years to reduce income in those years and may be carried forward for 20 taxation years.

The Class A Investment Shares, Series 3, will be a qualified investment for registered plans (*i.e.*, RRSP, TFSA). The transfer of any shares by a holder to a registered plan constitutes a disposition of the shares by the holder for income tax purposes. In such circumstances, the holder is deemed to receive the proceeds of disposition for the shares equal to their fair market value at that time of such transfer, and this amount is included in computing the capital gain or loss from the disposition. Any capital loss arising on such disposition is denied to the shareholder until the share is disposed to an arm's length person. Interest expense related to shares transferred to an RRSP is not deductible for income tax purposes.

RRSP and TFSA-Eligible

Concentra Trust will accept Class A Investment Shares, Series 3, purchased in this offering to be contributed to a member's RRSP or TFSA. The proceeds of redemption or transfer of Class A Investment Shares, Series 3, held in an RRSP will remain inside that RRSP unless the annuitant specifically requests otherwise in writing.

Class A Investment Shares, Series 3, are also acceptable investments for RRIFs. Because of potential adverse tax consequences to the holder, however, Alterna Savings will not knowingly sell Class A Investment Shares, Series 3, to be held in the shareholder's RRIF.

Alterna Savings will permit purchasers to hold Class A Investment Shares, Series 3, inside a RRSP only if they have not yet attained the age of sixty-six years as of the Issue Date. Members intending to hold Class A Investment Shares, Series 3, in a RRSP should carefully review the transfer and redemption restrictions of these shares.

Rights on Distributions of Capital

On liquidation or dissolution, holders of Class A Investment Shares, Series 3, will be paid the Redemption Amount for each such share held, in priority to holders of the Class B Shares, Series 1, and of the Membership Shares, and rateably with the holders of all other series of Class A Shares, including the Class A Investment Shares, Series 1 and Series 2, but after provision for payment of all Alterna Savings' other debts and obligations. Holders of Class A Investment Shares, Series 3, shall not thereafter be entitled, as holders of Class A Investment Shares, Series 3, to participate in the distribution of Alterna Savings' assets then remaining, but will retain any rights they may have to such a distribution as holders of Class B Shares, Series 1, Class A Investment Shares, Series 1 or Series 2, or Membership Shares. Distributions regarding Class A Investment Shares, Series 3, held in an RRSP will remain in that RRSP unless the annuitant specifically requests otherwise in writing.

Voting Rights

The Class A Investment Shares, Series 3, are Non-Voting for the purposes of annual or special meetings of the members of Alterna Savings. In the event of a proposed dissolution, amalgamation, purchase of assets representing a Substantial Portion of Alterna Savings' assets, the sale, lease or transfer of a Substantial Portion of its assets, a proposed resolution which affects the rights attaching to the Class A Investment Shares, Series 3, or an application for a certificate of approval for its continuance under another statute or jurisdiction, it shall hold a special meeting of the holders of Class A Investment Shares, Series 3, which may be held separately from the special meeting of the holders of any other series of Class A Shares, including the Class A Investment Shares, Series 1 or Series 2, if their rights are affected differently from those of the holders of any other series of Class A Shares. The holders of Class A Investment Shares, Series 3, shall have one vote per Class A Investment Share, Series 3, held at such meetings to consider such an event or resolution, which requires approval by Special Resolution. Approval at a meeting of the members of Alterna Savings, and at meetings of the holders of all other classes of shares in its capital structure, will also be required.

Redemption Provisions and Restrictions
Holders of Class A Investment Shares, Series 3, may not request that Alterna Savings redeem the shares they hold until six months prior to the end of the fifth fiscal year following the fiscal year in which the Class A Investment Shares, Series 3, are issued, and requests may only be made until the end of that fiscal year. A similar process will be followed in each subsequent fiscal year of Alterna Savings. Redemptions will be considered at the first Board meeting of the subsequent fiscal year, and, if approved, will occur within the first 60 days of the subsequent fiscal year. Redemptions requests will be processed in the following order, and, within each category of requests, will be considered on a first-come, first-served basis:

1. requests made by the estates of deceased shareholders;
2. requests made by shareholders who have been expelled from membership in Alterna Savings; and
3. all other requests.

Redemptions are subject to the aggregate limits detailed below.

Approval of any redemption request is in the sole and absolute discretion of the Board. The Board may not approve a request if, in the opinion of the Board, honouring such redemption request will cause Alterna Savings to be unable to comply with the Regulatory Capital and liquidity requirements of section 84 of the Act.

In no case shall total redemptions approved for holders of Class A Investment Shares, Series 3, in any fiscal year exceed an amount equal to 10% of the total Class A Investment Shares, Series 3, outstanding at the beginning of that fiscal year.

Alterna Savings has the option of redeeming, at the Redemption Amount, all or any portion of the Class A Investment Shares, Series 3, then outstanding, subject to restrictions in the Act, after giving at least 21 days notice of its intent to redeem, at any time after the fifth anniversary of the Issue Date. If Alterna Savings redeems only a portion of the Class A Investment Shares, Series 3, then outstanding, Alterna Savings must redeem such Class A Investment Shares, Series 3, *pro rata* from all holders of such shares at that time. The proceeds of any redemption of Class A Investment Shares, Series 3, held inside an RRSP will remain inside the RRSP unless the annuitant specifically requests otherwise in writing.

Purchasers of Class A Investment Shares, Series 3, who are intending to include such shares in an RRSP contract should carefully review the above redemption provisions and restrictions before proceeding. Alterna Savings will only permit shareholders who purchase Class A Investment Shares, Series 3, in this offering to hold those shares in an RRSP contract if the purchaser/annuitant has not attained the age of sixty-six years as of the Issue Date.

Restrictions on Transfer
Class A Investment Shares, Series 3, may not be transferred except to another member of Alterna Savings. Transfers will be subject to the approval of the Board; the Board has delegated this authority to the President and Chief Executive Officer. Transfer requests must be in writing, using a form approved by the Board. Transfer requests will be tendered to the registered office of Alterna Savings.

Class A Investment Shares, Series 3, will be transferred to other members at a price equal to the current Redemption Amount. The proceeds of disposition of Class A Investment Shares, Series 3, held inside an RRSP will remain inside that RRSP unless the annuitant specifically requests otherwise in writing.

No member, through transfers of Class A Investment Shares, Series 3, from other members, will be allowed to hold more Class A Investment Shares, Series 3, than the member would otherwise have been able to subscribe for in this initial offering (200,000 shares, irrespective of any Class A Investment Shares, Series 1 or 2, the shareholder may own). **There is no market for the Class A Investment Shares, Series 3, issued by Alterna Savings.** Alterna Savings may, however, choose to maintain a list of willing buyers, and attempt to facilitate a transfer to a willing buyer rather than process a redemption when a holder of Class A Investment Shares, Series 3, requests redemption; this procedure will not apply when a holder of Class A Investment Shares, Series 3, or his or her estate, is required by law to transfer the shares to another member of Alterna Savings (*e.g.*, by the Will of a deceased shareholder), or has already located a purchaser for his or her Class A Investment Shares, Series 3.

Articles of Amalgamation
Prospective purchasers of Class A Investment Shares, Series 3, may obtain, on request at the registered office of Alterna Savings, a copy of the articles of amalgamation, and the resolution of the Board which amended its articles of amalgamation. These documents define its share capital structure, including the full terms and conditions of the Class A Investment Shares, Series 3.

RISK FACTORS

Enterprise Risk Management

Alterna Savings recognizes there are significant risks inherent in its business activities. It is the policy of Alterna Savings to manage such risks consistently and actively, from the governance level of the Board to the day-to-day operations of all employees, with the intent of delivering on its mission, vision, values and business strategy. Alterna Savings maintains an Enterprise Risk Management (ERM) framework appropriate for its size and complexity, which includes enterprise-wide policies, processes, systems and resources to manage the organization's principal risks within prudent boundaries.

Through Alterna Savings' flexible ERM approach, and supported by a solid governance framework, management collectively looks out at the market and within the organization to identify, assess, respond, and monitor potential risks.

On an ongoing basis, including formal quarterly discussions by the Senior Management Team, enterprise-wide current and emerging risks are reviewed and validated as to the sufficiency of mitigating actions for principal exposures. Regular forward-looking reporting on these risks is provided to the Finance & Audit Committee of the Board, in their oversight capacity on risk management.

The following risk factors should be considered in making a decision to purchase Class A Investment Shares, Series 3.

Transfer and Redemption Restrictions

There is no market through which the Class A Investment Shares, Series 3 may be sold. Further, it is not expected that any market will develop. These securities may only be transferred to another member of Alterna Savings. Note that such a transfer is not treated as redemption, and is therefore not limited as outlined below. See “Restrictions on Transfer”, on pages 20 and 21, for a further discussion of transfers of Class A Investment Shares, Series 3.

The Act prohibits redemption of shares if the Board of Alterna Savings has reasonable grounds to believe that Alterna Savings is, or the payment would cause it to be, in contravention of prescribed liquidity and Regulatory Capital adequacy tests for credit unions.

Redemptions of Class A Investment Shares, Series 3, are permitted at the sole and absolute discretion of the Board, and are not permitted prior to the end of the fifth fiscal year following the fiscal year in which the shares are issued. Redemptions after that time are limited in any fiscal year to 10% of the Class A Investment Shares, Series 3 outstanding at the end of the previous fiscal year, and are at the discretion of the Board. Consequently, holders of Class A Investment Shares, Series 3 may not be able to sell or redeem their securities when they wish to do so.

Members who intend to hold Class A Investment Shares, Series 3 within an RRSP contract should carefully review this risk factor before proceeding. Alterna Savings will only permit shareholders who purchase Class A Investment Shares, Series 3, in this offering to hold those shares in an RRSP contract if the purchaser/annuitant has not attained the age of sixty-six years as of the Issue Date, and will not knowingly sell Class A Investment Shares, Series 3, to be held in the shareholder’s RRIF contract.

Capital Adequacy

The Act requires Alterna Savings to maintain a Leverage Ratio and a Risk-Weighted Assets Ratio equal to or greater than a percentage stated in the Regulations passed pursuant to the Act. Alterna Savings is required to maintain a Leverage Ratio of 4.00% and a Risk-Weighted Assets Ratio of 8.00%. Alterna Savings complies with both of these requirements as of the date hereof.

For further information regarding Alterna Savings’ Regulatory Capital adequacy, see “Capital Adequacy” beginning on page 9.

Payment of Dividends

There is no record of dividend payments to the holders of Class A Investment Shares, Series 3, since this is Alterna Savings’ first issuance of such shares. Alterna Savings has, however, established a record for the payment of dividends on its Class A Investment Shares, Series 1 and Series 2, in its last five fiscal years, detailed on page 29.

Past payment of dividends or other distributions in no way indicates the likelihood of future payments of dividends. The payment of dividends to the holders of Class A Investment Shares, Series 3 is dependent on the ability of Alterna Savings to meet the Regulatory Capital requirements of the Act, and on the availability of earnings.

Dividends on Class A Investment Shares, Series 3, are taxed as interest and not as dividends, and are therefore not eligible for the tax treatment given to dividends from taxable Canadian corporations, commonly referred to as the "dividend tax credit".

The Board has stated a dividend policy for Class A Investment Shares, Series 3, as outlined on pages 29 through 31 hereof. It is possible that no dividends will be paid regarding any particular fiscal year of Alterna Savings.

Credit Risk

The major activity of Alterna Savings is the lending of money to members and, as a result, there exists the risk of loss from uncollectible loans. The lending policies of Alterna Savings, the care and attention of staff and management in applying such policies to loan applications and loans granted, and the security taken in connection with such applications, will affect the future profitability of Alterna Savings and impact on its ability to pay dividends and redeem Class A Investment Shares, Series 3. Alterna Savings is, as of May 31, 2011, in compliance with its credit policies.

A discussion of Alterna Savings' accounting policies regarding its loans to its members is found in note 2(f)(i) to the interim consolidated financial statements, and in note 2(e) to the annual consolidated financial statements, included in this offering statement, under the heading "Loans and loan impairment", at pages 10 and 11 of Schedule A hereto and under the heading "Allowance for impaired loans" at page 8 of Schedule B hereto.

Further discussion of the composition of Alterna Savings' loan portfolio, and its allowance and provision for impaired loans, appears in notes 5 and 6 to the interim consolidated financial statements, and in notes 5 and 6 to the annual consolidated financial statements, included in this offering statement, beginning at page 28 of Schedule A hereto and page 12 of Schedule B hereto, and in the table of financial performance indicators at page 52.

Market Risk

Alterna Savings is also exposed to risk in respect of its investments. The investment policy of Alterna Savings, approved by its Board, permits Alterna Savings to purchase, as part of its investment portfolio:

- Fixed income and money market instruments, examples of which are:
    - Direct obligations of or guaranteed by the federal government or the government of a Canadian province for a term of the lesser of 7 years or the time-frame of the guarantee;
    - Municipal bonds for a term of 7 years or less;
    - Certificates of deposit or deposit receipts, discounted notes, banker's acceptances, and guaranteed promissory notes issued by the chartered banks, their subsidiaries, provincial credit unions central, and other financial institutions in Canada;
    - Corporate bonds and debentures for terms of 7 years or less;

- Mortgage-backed securities;
- CS Alterna Bank term deposits;
- Investments secured by residential properties sold by Canadian- or provincially-chartered loans, savings, mortgage and trust companies, credit unions in Ontario or in another province where Alterna Savings can register a mortgage on title, or subsidiaries of any of those;
- Investments secured by cottage properties if acquired from CS Alterna Bank; and
- Investments secured by commercial properties if acquired from CS Alterna Bank and if Alterna Savings would have granted the loan if the borrower and property had been located in Ontario;

- US-dollar investments to hedge against members' US-dollar deposits;
- Shares in CUCO and Central 1, subsidiaries, and certain largely credit union system entities, including the limited partnership discussed at pages 8 and 9.

The policy also imposes minimum credit rating standards on issuers, and restricts exposure to any one issuer.

As of May 31, 2011, Alterna Savings complied with this investment policy.

Liquidity Risk

Liquidity risk is the risk that Alterna Savings will encounter difficulty in meeting its obligations associated with its financial liabilities. Since Alterna Savings is a Class 2 Credit Union, it is required to establish and maintain prudent levels and forms of liquidity that are sufficient to meet its cash flow needs.

According to Alterna Savings' liquidity management and funding policy, adequate liquidity includes cash; deposits in a league, Central 1, La Fédération des Caisses Desjardins du Québec, or La Caisse centrale Desjardins du Québec; deposits in deposit-taking financial institutions in Canada; cheques and other items in transit; federal- and provincial-issued securities; securities secured by mortgages and guaranteed by CMHC or GE Capital, commercial paper, banker's acceptances and similar instruments guaranteed by a deposit-taking institution in Canada; securities issued by a school board, university, or hospital; investments accounted for using the equity method; and league shares.

Alterna Savings' liquidity management and funding policy provides that it will maintain a minimum stock of liquid assets representing the greater of 10% of its member deposits and borrowings, or its cumulative funding gap, as measured by a maturity laddering model on a monthly basis. This includes the requirement, pursuant to Central 1's By-Law, to maintain a liquidity reserve equivalent to 6% of Alterna Savings' assets with Central 1 in order to maintain its membership in Central 1 in good standing. Alterna Savings measures the adequacy of its liquidity daily.

The policy requires liquidity to be invested in accordance with the investment policy as outlined at pages 23 and 24, in investments which are diversified, have residual maturities appropriate for its specific cash flow, are readily marketable or convertible into cash, and have minimal credit risk.

The policy also requires the hedging of deposits where those deposits may create a significant adverse reputational or financial impact on liquidity.

Alterna Savings maintained an average liquidity position of 12.53% relative to total assets in the five months ending May 31, 2011.

Alterna Savings has access to a CDN $168,400,000 credit facility from Central 1, which is available to cover shortfalls in cash resources and for liquidity purposes if warranted. For further information, see "Senior Debt" at page 33.

As part of its liquidity management practices, Alterna Savings has securitized residential mortgages through a securitization program, the details of which are provided in note 7 to the annual consolidated financial statements attached hereto as Schedule B. Total outstanding residential mortgage securitizations as of May 31, 2011 are $47,578,000.

The liquidity management and funding policy also deals with how Alterna Savings funds its liquidity needs. Alterna Savings is required to maintain access to a variety of appropriate sources of funding, including, without limitation, deposits, asset securitizations, and borrowings. It requires deposits to be diversified to avoid undue concentration, limiting deposits from any person and their connected parties to 2% of unimpaired capital, deposits and surplus according to Alterna Savings' most recent annual consolidated financial statements. Deposits must also be diversified as to type of deposit instrument, term to maturity and market source. The policy sets out the conditions under which Alterna Savings will accept deposits sourced from third parties, limits those deposits both in the aggregate and also from any one source, and requires that the maturities of such deposits be staggered.

Alterna Savings is also required to maintain, and to review annually, a liquidity contingency plan.

As of May 31, 2011, Alterna is in compliance with its liquidity management and funding policy.

Structural Risk

Alterna Savings' general asset/liability management policy requires the management of the balance sheet to diversify and prudently balance financial risk and return. Certain balance sheet categories are limited as a percentage of total assets. Fixed-rate loans are generally limited to terms of seven years, while fixed-rate deposits are generally limited to terms of five years.

Structural risk comprises exposure to interest rate movements (basis risk, mismatch risk, yield curve risk and option risk), and exposure to foreign exchange rate movements.

- Basis risk is the risk to income from variable rate deposits funding variable rate loans that change at different speeds.

- Mismatch risk is the risk to income from variable rate deposits funding fixed rate loans or variable rate loans funded by fixed rate deposits.

- Yield curve risk is the risk to income from fixed rate deposits funding fixed rate loans of a different term.

- Option risk is the risk to income from options embedded in many deposit or loan products.

- Foreign exchange risk is the risk to income that could result from changes to foreign exchange rates.

There are two levels of interest rate risk that Alterna Savings measures and monitors to meet regulatory requirements. Specifically, Alterna Savings must measure interest rate risk as it relates to earnings at risk, and as it relates to equity (economic value at risk). Earnings at risk measures the impact that short term interest rates have on 12 month net interest income. Economic value at risk measures the impact that longer term interest rates have on the equity of Alterna Savings. To measure all structural risks properly, an earnings at risk and economic value at risk test must be performed.

Short-term interest rate risk is measured using the standard deviation of linear path space simulations. Alterna Savings limits this risk to 3% of average forecasted net interest income over the subsequent twelve months with a 95% confidence level.

Long-term interest rate risk is measured by calculating the net present value of all future cash flows by discounting them by the Canadian swap curve. Alterna Savings limits this risk to 7% of equity.

Alterna Savings then analyzes the sensitivity of those results to parallel and non-parallel shifts in the yield curve and to key rates to which Alterna Savings is particularly sensitive.

Lower limits may be set in any particular annual operating plan.

Alterna Savings is permitted to, and does, use derivative instruments to hedge interest rate risk and to enable particular member product offerings. Alterna Savings is specifically prohibited from using these instruments for speculative investment purposes. See page 40 for further information.

As at May 31, 2011, short term interest rate risk was computed at 0.44%, and the long term interest rate risk at 3.02%. Alterna Savings was, as of that date, in compliance with its general asset/liability management policy.

Alterna also performs various other shock analyses on the balance sheet and the associated margin outputs. The balance sheet is slightly asset sensitive and positioned to benefit from an increase in short-term rates associated with prime rate movements. An immediate upward and sustained 12 month shock in interest rates of 100 Basis Points predicts a 1.4% or $857,000 increase overall in margin. The same interest shock downward predicts a 2.2% decrease in margin or $1,375,000. This non-parallel sensitivity to falling rates occurs as demand deposits move towards a rate floor of 0% and the yield on floating rates loans decreases the full 1%. This compression in margin is a normal course risk that is monitored on an ongoing basis.

In the event that Alterna Savings' exposure to interest rate risk were to exceed the policy limits described above, future profitability could become seriously eroded should interest rates move in the direction where Alterna Savings has an exposure, with a resulting negative impact on the ability of Alterna Savings to pay dividends or redeem shares. Management, however, could employ one or more of several techniques to mitigate the potential risk. Alterna Savings takes a conservative view of structural risk, and seeks to achieve steady, predictable income.

Operational Risk

Operational risk is the risk that, in any operational area of Alterna Savings (*i.e.*, capital, credit, market, structural, and liquidity management), a financial loss will result from fraud, human error, or bad judgement. Alterna Savings' internal control policy provides that management is charged with the responsibility for establishing a network of processes with the objective of controlling the operations of Alterna Savings in a manner that provides the Board with the assurance it requires that:

- Data and information published either internally or externally is accurate, reliable and timely;
- The actions of directors, officers and employees are in compliance with its policies, standards, plans and procedures, and with all relevant laws and regulations;
- Alterna Savings' resources are adequately protected;
- Resources are acquired economically and employed profitably;
- Quality business processes and continuous improvement are emphasized; and
- Management strives to achieve Alterna Savings' plans, programs, goals and objectives.

Alterna Savings has a disaster recovery plan in place for its core banking applications and this plan is regularly tested. Alterna Savings has recognized the need for, and is working on, improvements in its business continuity plan to enhance its ability to recommence operations quickly in an extreme disaster. In the short term, focus will be on recovery plans in the event of a temporary or extended shutdown of its head office, and in the linkages between the business continuity plan and Alterna Savings' information technology.

Alterna Savings has identified the performance of its suppliers, and of the service providers to whom it has outsourced certain functions, as a risk, and has taken steps to mitigate that risk, to the extent reasonably possible, through its contracts and relationships with those suppliers and service providers.

As of May 31, 2011, Alterna is in compliance with its internal control policy.

Regulatory Action

Under the Act, the Deposit Insurance Corporation of Ontario ("DICO") has the authority to place a credit union under Supervision or Administration should it believe that there is a potential for that credit union or caisse populaire to encounter financial or management problems which could affect its financial well-being or which could tend to increase the risk of claims by that credit union or caisse populaire against the deposit insurance fund.

Alterna Savings is focused on complying with current and emerging regulatory requirements, and generally applies stricter requirements than those prescribed for credit unions.

Reliance on Key Management

The success of Alterna Savings' business strategy is dependent on the ability of Alterna Savings to retain its senior management personnel. The inability to retain such persons, or replace them with individuals of equal competence, could adversely affect Alterna Savings' financial performance.

Alterna Savings has employment contracts with its President and Chief Executive Officer, and with its Senior Vice President, Personal and Small Business Banking, that require those senior managers to provide Alterna Savings with notice, longer than that which would be ordinarily required by law, of the termination of his or her employment relationship with Alterna Savings.

Alterna Savings does not own key-person life insurance on any of its senior managers.

Alterna Savings has policies in place regarding both the emergency replacement of its President and Chief Executive Officer, and also regarding succession planning for its executives.

Economic Risk

Like every other financial institution, Alterna Savings is affected by periods of economic downturn that result in a lack of consumer confidence, a drop in demand for loans and mortgages, or a reduction in the level of savings. Alterna Savings, as a community-bond credit union, is dependent to a significant degree on the economic performance of the communities that it serves.

Toronto and Region

According to the Conference Board of Canada's publication, *Metropolitan Outlook: Spring 2011*, Toronto's economy expanded by 4 per cent last year as the census metropolitan area (CMA) recuperated from the global recession. This growth was led by strength in the manufacturing, construction, and wholesale and retail trade sectors. A slowdown in the global recovery, as well as the end of government stimulus spending, is expected to hold growth in the CMA's real gross domestic product to 2.8 per cent for 2011. Overall the biggest driver of growth will continue to be the goods sector as manufacturing remains on the road to recovery. In 2012, it is anticipated that a more stable world economy will allow real GDP in Toronto to expand by 3.3 per cent, above the Canadian average.

Ottawa – Gatineau Region

According to the Conference Board of Canada's publication, *Metropolitan Outlook: Spring 2011*, Ottawa – Gatineau's economy grew by a solid 2.7 per cent in 2010, a sharp turnaround from the 1.2 per cent contraction in 2009. Economic growth will be more moderate this year and in 2012. Efforts to reduce the federal deficit will restrict growth in the local economy, which accounts for one-quarter of Ottawa–Gatineau's total output. At the same time, housing starts are expected to weaken over the next two years, putting a damper on overall construction activity. Finally, although the manufacturing sector is expected to enjoy solid gains this year and next, growth will be just about half the pace achieved in 2010. All in all, real GDP growth in the National Capital Region is forecast to reach 2.2 per cent in 2011 and 2.3 per cent in 2012, below the Canadian average.

Readers should consult the aforementioned publication directly for additional commentary and analysis on the market outlook. Readers should also note that forecasts can vary widely and are therefore encouraged to consult additional sources as they deem necessary or prudent.

Competitive Risk

The financial services industry continues to be extremely competitive. The major banks have expanded their traditional core banking business into other financial services, where they now dominate the brokerage and trust industries. As a result, the sheer size and increasing scope of their diversified operations represent both a challenge and an opportunity to credit unions. The success of credit unions depends largely on their ability to differentiate themselves from large banks, and on their ability to provide personal service while supplying new products and services to meet their members' needs, thereby ensuring that they earn sufficient profits to continue to grow and prosper. Alterna Savings offers a full range of products and services.

The financial services industry has also been transformed by the entry of "virtual banks" like ING Direct and "near-banks" like President's Choice Financial and Canadian Tire Bank, which have driven down lending rates and driven up deposit rates, thereby generally compressing the financial margin of all financial institutions.

Management regards this as a significant risk facing Alterna Savings. Alterna Savings seeks to mitigate this risk through its strategy of locating and operating in market niches where it can be competitive.

DIVIDEND RECORD AND POLICY

Alterna Savings has paid the following dividends with regard to its last five fiscal years:

	Class A Investment Shares, Series 1		Class A Investment Shares, Series 2		Class B Shares, Series 1	
Fiscal Year Ended	% on Outstanding Shares	Amount Paid	% on Outstanding Shares	Amount Paid	% on Outstanding Shares	Amount Paid
December 31, 2010	5.63%	$692,000	5.63%	$532,000	1.00%	$26,000
December 31, 2009	5.63%	$712,000	5.63%	$526,000	1.00%	$28,000
December 31, 2008	5.63%	$793,000	5.63%	$522,000	0%	$0
December 31, 2007	6.13%	$637,000	5.63%	$524,000	1.00%	$30,000
December 31, 2006	6.13%	$958,000	4.75%	$447,000	1.00%	$33,000

Note that the absence of a dividend payment regarding the Class B Shares, Series 1 in the 2008 fiscal year is entirely due to a change in how Alterna Savings accrues and pays the dividend. In the fiscal year ending December 31, 2007 and prior, the dividend was accrued and paid in the same fiscal year. In subsequent fiscal years, the dividend was not declared and paid until after the audited financial statements for the fiscal year became available in the next fiscal year.

Dividends paid on Class A Investment Shares, Series 1 and Series 2, and Class B Shares, Series 1, were paid in the form of cash or additional shares of the same class and series. No dividends were paid on Membership Shares in the last five fiscal years.

Past payment of dividends is in no way an indicator of the likelihood of payment of future dividends.

For a discussion of the priority of the various classes of shares in the payment of dividends, and the restrictions placed on the Board in the declaration of dividends, see pages 11, 12, 16, 17, 22 and 23.

The dividend rate on Class A Investment Shares, Series 3, will be set annually by the Board. This annual dividend rate, if and when a dividend is declared prior to the first Minimum Dividend Adjustment Date as outlined below, will not be less than 4.5%. This minimum annual dividend rate shall not be construed to prevent the Board from declaring a pro-rated dividend where Class A Investment Shares, Series 3, are outstanding for only a portion of a fiscal year, provided that the annual rate which is pro-rated equals or exceeds the minimum annual dividend rate. This minimum annual rate will remain in effect for fiscal years beginning prior to the fifth anniversary of the initial issuance of the shares. The minimum annual dividend rate will be adjusted at the final Board meeting in the fifth fiscal year following the fiscal year in which the initial issuance of shares hereunder occurs, and each fiscal year thereafter (each such Board meeting a "Minimum Dividend Adjustment Date"). Board policy states that the new minimum annual dividend rate for each one year period following a Minimum Dividend Adjustment Date will not be less than 125 Basis Points above the yield on the monthly series of the Government of Canada five-year benchmark bond, as published by the Bank of Canada Internet site, www.bankofcanada.ca (CANSIM identifier V122540), for the month preceding the month in which the Minimum Dividend Adjustment Date occurs. The Non-Cumulative dividend is payable if and when declared by the Board. It is therefore possible, in spite of the minimum dividend rate as outlined above, that no dividend will be declared and paid regarding a particular fiscal year of the Credit Union.

Dividends for the Class A Investment Shares, Series 3, are dependent upon, in part, the earnings of Alterna Savings and on its ability to comply with the Regulatory Capital and liquidity requirements of section 84 of the Act (see also "Capital Adequacy" in the section on "Risk Factors" on page 22). The payment of such dividends will be in such manner and on such terms as may be determined from time to time by the Board. The Board intends to, if thought appropriate, pay such dividends to holders of Class A Investment Shares, Series 3, annually, after the Credit Union's fiscal year-end and before the annual general meeting of its members.

The dividend policy of the Alterna Savings Board for Class A Investment Shares, Series 3, shall be to pay a dividend in every year in which there is sufficient net income to do so while still fulfilling all other Regulatory Capital, liquidity and operational requirements. The dividend rate shall be established by the Board, in its sole and absolute discretion, within the provisions of the articles of incorporation outlined above regarding the minimum dividend rate, based on financial and other considerations prevailing at the time of the declaration.

Although there is no guarantee that a dividend will be paid in each year, it is contemplated by the Board that a dividend, commensurate with the minimum dividend requirements and policy outlined above, will be declared and paid in each year, provided that Alterna Savings is in compliance with section 84 of the Act. The payment of such dividends may be made in cash, in Class A Investment Shares, Series 3, or in a combination of these; Board and management currently anticipate, however, that dividends on the Class A Investment Shares, Series 3, will be paid in cash.

Note that dividends paid by credit unions are not treated as dividends, but are instead treated as interest, for Canadian income tax purposes. Dividends paid on the Class A Investment Shares, Series 3, will therefore not be eligible for the tax credit given to shareholders who receive dividends from taxable Canadian corporations.

Following consideration and payment of a dividend on the Class A Investment Shares, Series 3, and on the shares ranking equally with the Class A Investment Shares, Series 3 (*i.e.*, the Class A Investment Shares, Series 1 and Series 2), the Board may decide to pay a dividend on shares ranking junior to the Class A Investment Shares, Series 3, and the other series of Class A Investment Shares, including the Class B Shares, Series 1 and the Membership Shares.

USE OF PROCEEDS FROM SALE OF SECURITIES

The principal use of the net proceeds, and the purpose of this offering, is to add to Alterna Savings' Regulatory Capital in order to provide for the future growth, development and stability of Alterna Savings, while maintaining a prudent cushion in the amount of Regulatory Capital above regulatory requirements.

PLAN OF DISTRIBUTION

1. The price to members for each Class A Investment Share, Series 3 will be $1.00.
2. There will be no discounts or commissions paid to anyone for the sale of these securities.
3. One hundred percent (100%) of the proceeds of the sale of these securities will go to Alterna Savings, which will then be responsible for the payment of the costs associated with this offering statement.

Subscriptions for the Class A Investment Shares, Series 3, shall be accepted as of the date hereof, and for a period of six months thereafter, or until the date on which subscriptions have been received for the maximum 35,000,000 Class A Investment Shares, Series 3, or until a date, after Alterna Savings has received subscriptions for the minimum 5,000,000 Class A Investment Shares, Series 3, but before Alterna Savings has received subscriptions for the maximum 35,000,000 Class A Investment Shares, Series 3, and before six months have passed from the date hereof, on which the Board in its sole and absolute discretion shall determine to close the offering, whichever shall occur first (the "Closing Date"). Subscriptions will be accepted on a first come, first served basis, and subscription forms will be marked with the time and date accepted. Alterna Savings will closely monitor subscriptions being received as total subscriptions approach the maximum. Potential purchasers making subscription requests at that time may not be allowed to subscribe for the full number or amount of shares they desire, or their subscription request may be refused. This offering may not be over-subscribed, and subscriptions will not be pro-rated.

If the funds to be used by a subscriber to pay for shares subscribed are on deposit at Alterna Savings, the subscriber will authorize Alterna Savings to place these funds "on hold" in a temporary account bearing interest at the rate outlined for the Escrow arrangement below, to guarantee payment of these shares. If the offering is completed, such hold will be released, and the authorized amount will be used to pay for the shares for which the member subscribed. If the offering is withdrawn, or if the decision to buy is reversed by the subscriber (as described on the cover of this offering statement), the hold on the funds will be released and the funds returned to the subscriber's account immediately thereafter.

If the funds to be used by a subscriber to pay for shares subscribed are coming from outside Alterna Savings, such funds will be held in Escrow, in accounts to be trusteed by Concentra Trust, until the offering is completed or withdrawn, or until the subscriber exercises the right to reverse the decision to purchase the securities (as described on the cover of this offering statement). If the offering is completed, the proceeds will be released from Escrow and used to pay for the shares for which the member subscribed. If the offering is withdrawn, or if the subscriber reverses the decision to buy as permitted by this offering statement and discussed on the cover of this offering statement, the proceeds will be refunded in full, plus interest calculated at a rate of 3.25%, pro-rated for the number of days the funds were in Escrow, to those who subscribed.

The above-noted terms and conditions regarding holds on subscribers' deposit accounts and regarding Escrow accounts are detailed on Alterna Savings' subscription form for Class A Investment Shares, Series 3 and on a separate agreement, to be signed by those subscribers using funds from outside Alterna Savings, authorizing placement of proceeds in Escrow accounts. Copies of the subscription form and the forms for authorization of placement of funds in Escrow accounts are printed on pages 60, 61 and 62.

If fully subscribed, the gross proceeds to be derived by Alterna Savings from the sale of the Class A Investment Shares, Series 3 shall be $35,000,000. The costs of issuing these securities are not expected to exceed $350,000, and these costs, approximating $262,000 after applicable tax savings, will be netted against the shares' value in members' equity. The estimated maximum net proceeds of this offering of securities are $34,738,000.

If, after six months from the date of this offering statement, subscriptions received for the Class A Investment Shares, Series 3, amount to less than $5,000,000 in the aggregate, this offering for Class A Investment Shares, Series 3, will either be renewed with the approval of the Superintendent of Financial Services, or be cancelled and withdrawn, and all funds "frozen" or held in Escrow to support subscriptions will be returned to the respective members within 30 days thereof, with applicable interest, without shares being issued. If at that time, however, sales amount to at least $5,000,000 but do not amount to $35,000,000, Alterna Savings may proceed to close the offering, or apply to the Superintendent of Financial Services for a renewal of the offering for a period not exceeding six months.

After the Closing Date, the shares for which subscriptions have been received will be issued within sixty days after the Closing Date (the "Issue Date").

The Class A Investment Shares, Series 3, will not be sold by underwriters or other dealers in securities. The minimum subscription per member shall be $1,000 for 1,000 Class A Investment Shares, Series 3. The maximum subscription per member shall be $200,000 for 200,000 Class A Investment Shares, Series 3. Shares will only be issued subject to the full price of such securities being paid.

MARKET FOR THE SECURITIES

There is no market for the Class A Investment Shares, Series 3. <u>These securities may only be transferred to another member of Alterna Savings</u>.

SENIOR DEBT (RANKING AHEAD OF CLASS A INVESTMENT SHARES, SERIES 3)

Alterna Savings has arranged a credit facility, totalling CDN $168,400,000, consisting of a Canadian-dollar operating line of credit of CDN $7,000,000, a US-dollar operating line of credit of US $500,000, term loans of CDN $120,600,000, additional uncommitted term loan funds of CDN $34,700,000, CDN $600,000 for capital markets and CDN $5,000,000 for letters of credit, at Central 1. That amount is available to cover fluctuations in daily clearing volume on members' chequing accounts, and to provide liquidity if warranted. As security for these credit facilities, Alterna Savings has given Central 1 a general security agreement. The credit facility will next be reviewed in March 2012.

The balance outstanding on the credit facilities of Alterna Savings during the five-month period ended May 31, 2011 and in its fiscal years ending December 31, 2010, 2009 and 2008 is outlined below.

	Canadian-Dollar Operating Line		US-Dollar Operating Line		Term Loan			Capital Markets		Letters of Credit	
Fiscal Period Ended	**High Balance**	**Low Balance**	**High Balance**	**Low Balance**	**Period Ending Balance**	**High Balance**	**Low Balance**	**High Balance**	**Low Balance**	**High Balance**	**Low Balance**
May 31, 2011	$6,613	0	$0	0	$10,000	$24,300	0	$239	0	$1,064	0
December 31, 2010	$2,462	0	$0	0	$0	$33,500	0	$325	0	$2,253	0
December 31, 2009	$10,477	0	$0	0	$30,000	$53,600	0	$475	0	$2,003	0
December 31, 2008	$10,278	0	$0	0	$34,700	$88,300	0	$421	0	$0	0

Members' deposits in Alterna Savings, as well as its other liabilities, including unsecured creditors, rank prior to Alterna Savings' obligations to the holders of any class or series of its shares, including the Class A Investment Shares, Series 3.

AUDITORS, REGISTRAR AND TRANSFER AGENT

The auditors of Alterna Savings are Ernst & Young LLP, Chartered Accountants, Licensed Public Accountants, 100 Queen Street, Suite 1600, Ottawa, Ontario K1P 1K1 (phone 613-232-1511, facsimile 613-232-5324, website www.ey.com).

The registrars and transfer agents for the Class A Investment Shares, Series 3 are designated staff of Alterna Savings.

DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

The following table sets forth the board of directors of Alterna Savings:

Name/Municipality of Residence	Principal Occupation	Position/Office
Norman Ayoub Ottawa, Ontario.	Management Consultant	Director
Ruth Baumann Toronto, Ontario.	Retired educator/education researcher	Vice Chair
Ian Bennett McDonalds Corners, Ontario.	Executive, public sector	Director, Chair of Nominating Committee
Faren Bogach Toronto, Ontario.	Lawyer	Director; Chair of Human Resources Committee
Mary Louise Brennan Toronto, Ontario.	Supervisor/Project Manager	Director
Johanne Charbonneau Ottawa, Ontario.	Retired Executive – Corporate Director	Chair
Randal Heide Toronto, Ontario.	Management Consultant	Director
Raj Kapoor Ottawa, Ontario.	Management Consultant	Director
Kevin Lindsey Ottawa, Ontario.	Assistant Deputy Minister/Chief Financial Officer	Director; Chair of Finance & Audit Committee
Jeff May Markham, Ontario.	Retired	Director
Duncan Munn Toronto, Ontario.	Senior Vice President & Chief Operating Officer	Director; Chair of Member Relations Committee
Peter Ostapchuk Ottawa, Ontario.	Chartered Accountant	Director

There are currently two vacancies on the Board. One vacancy resulted from a resignation in the ordinary course of business at a time when it was impractical to fill that vacancy by election at the annual general meeting, since the election process was already then underway. The Board has subsequently decided not to fill that vacancy.

Another vacancy subsequently arose as a result of the death of a director. The Board has decided not to fill this vacancy by appointment prior to the next annual general meeting.

Senior Management

The following table sets forth the senior management of Alterna Savings:

Name/Municipality of Residence	Position/Title
John Lahey Toronto, Ontario.	President and Chief Executive Officer
José Gallant Ottawa, Ontario.	Senior Vice President and Chief Financial Officer
Josette Gauthier Toronto, Ontario.	Senior Vice President Human Resources
Robert Paterson Toronto, Ontario	Senior Vice President Personal and Small Business Banking
Madeleine Brillant Gatineau, Québec.	Vice President Corporate Affairs

All of the senior managers have been employed by Alterna Savings for at least the five years preceding the date hereof, except as outlined below.

Mr. Lahey has been employed by Alterna Savings since July 2007, and was previously employed as President and Chief Executive Officer of another large Ontario credit union for 6 years and by a major Canadian chartered bank in increasingly senior roles for almost 25 years.

Ms. Gauthier has been employed by Alterna Savings since January, 2009, and has almost 20 years of experience in Canada and the United States in retail banking management, large-scale operational cost-efficiency initiatives, mergers/acquisitions and integration, and functional executive leadership responsibility for human resources.

Mr. Paterson has been employed by Alterna Savings since April, 2011 and has over 20 years of experience in financial services, holding senior executive positions within the consumer, small business, commercial banking and private equity sectors of that industry.

Alterna has also entered into a consulting services agreement with Somerville & Associates Consulting Inc. dated January 31, 2011, whereby it obtained the services of Michael Somerville as its interim chief information officer, with the task of ensuring effective management of all operations and technology planning, projects and day-to-day operations. This agreement continued until August 1, 2011, when it was extended by mutual agreement. Either party can terminate this agreement on 180 days' notice.

LAWSUITS AND OTHER MATERIAL OR REGULATORY ACTIONS

As at May 31, 2011, including actions that may be used to recover delinquent loans where Alterna Savings is the plaintiff, Alterna Savings is not aware of any material pending or contemplated legal proceedings to which it is a party.

Alterna Savings is not aware of any regulatory actions pending or contemplated against Alterna Savings.

MATERIAL INTERESTS OF DIRECTORS, OFFICERS AND EMPLOYEES

All loans to the directors, officers and employees of Alterna Savings and their spouses and immediate dependent family members are made in the normal course of business, using standard credit granting criteria. With the exception of pricing, the loans are made to these individuals on the same terms and conditions as loans are made to the general membership. Regular full-time or part-time employees are eligible for discounted Personal Loans and Mortgage Loans up to a maximum amount of credit, which is larger for executive employees. Regular full-time or part-time employees may be eligible for a discount on US-dollar foreign exchange transactions, and are also entitled to a no-fee transactional banking package, and a premium on term deposits with a term of at least one year.

The aggregate value of loans in all categories to restricted parties of Alterna Savings, as of May 31, 2011, amounted to $4,649,000. No allowance was required in respect of these loans.

As members of Alterna Savings, directors, officers and employees of Alterna Savings each hold Membership Shares in the number required to maintain membership in Alterna Savings. Accordingly, each director, officer and employee may subscribe for the Class A Investment Shares, Series 3, should any of such persons wish to do so.

MATERIAL CONTRACTS

The following material contracts have been entered into by, or have bound, Alterna Savings during the last three years.

Various Leases for Premises and Equipment

Alterna leases all but two of the premises from which it operates, and leases certain computer hardware and equipment. The future financial impact of those leases on Alterna is disclosed in note 14 to the annual consolidated financial statements attached hereto as Schedule B regarding the capital (computer hardware and equipment) leases at page 18, and in note 25(a) to those annual consolidated financial statements regarding the operating (premises) leases at page 36.

Credit Union Banking and Credit Services Agreement Form of Adhesion with Credit Union Central of Ontario Limited ("CUCO"), dated January 1, 2007

This agreement was assigned to Central 1 on the purchase by Credit Union Central of British Columbia of Credit Union Central of Ontario, and regulates all aspects of Alterna Savings' relationship with Central 1: banking services, credit facilities, clearing and settlement services, bill payment services, direct deposit services, pre-authorized debit services, money orders, US retail services, swaps, securities trading, custodial services, structured products services, index-linked term deposits, pooled liquidity, on-line delivered services, and fees. The agreement may be terminated by Central 1 without notice at any time if any of Alterna Savings' representations or warranties are untrue, or if Alterna Savings breaches any term of this agreement and such breach is not cured within 30 days after notice. Alterna Savings also has the right to terminate the agreement without notice if Central 1 breaches any term of this agreement and such breach is not cured within 30 days after notice. Alterna Savings also has the right to terminate the agreement by paying its indebtedness, terminating any other lending or credit agreement it has with Central 1, paying in full the amount of any guarantee it has given of the indebtedness of another person, and performing its obligations under any security agreement granted by Alterna Savings in favour of Central 1.

Credit Agreement with CS Alterna Bank and Central 1 Credit Union, dated July 15, 2010; Guarantee and Indemnity with Central 1 Credit Union as of July 15, 2010

The Credit Agreement permits CS Alterna Bank to utilize a $30 million credit facility from Central 1 for working capital and for CS Alterna Bank's general corporate purposes. Alterna Savings is a party to this agreement to ensure that it is bound by certain representations, warranties, and positive and negative covenants contained in that agreement. Alterna Savings has also entered into the Guarantee and Indemnity where it unconditionally guarantees payment of Central 1 of all obligations of CS Alterna Bank, to a limit of $30 million. To demand payment from Alterna Savings, Central 1 must have properly demanded payment from CS Alterna Bank under the Credit Agreement, and that demand for payment must not have been honoured. The guarantee is irrevocable for a 10-year term, and can then be renewed at the request of Central 1 if there are still sums outstanding to Central 1 from CS Alterna Bank.

General Security Agreement with Central 1 Credit Union, dated March 11, 2010

This agreement is a standard general security agreement to support Alterna Savings' credit facilities with Central 1. Please see page 33 for further information on Alterna Savings' liabilities to Central 1.

License Agreement with Fiserv Solutions, Inc., effective January 3, 2003

This agreement, which was entered into by CS CO-OP prior to the amalgamation that formed Alterna Savings, provides Alterna Savings with a license to use the banking system software it uses to process and record its members' transactions. That license is non-exclusive and non-transferable. The agreement is perpetual unless it is terminated as permitted by the agreement. The agreement includes 5 years of maintenance; the maintenance contract is then renewed annually at then-current rates, which cannot increase more than 7% each year. Both parties have termination rights if the other party materially defaults in the performance of its obligations under the agreement. A schedule to the agreement requires Fiserv to provide disaster recovery services.

Master Processing Services Agreement with a major Canadian chartered bank, dated October 30, 2009; Processing Services Agreement with a major Canadian chartered bank, effective September 23, 2009

These agreements oblige the bank to provide Alterna Savings with ABM envelope processing services in both Toronto and Ottawa, and commercial deposit processing in Toronto. The bank is obliged to meet service levels specified in the processing services agreement, and is also obliged to ensure there is a business continuity plan in place for each service. Alterna pays the bank's invoices for services provided; fees can increase by the increase in the Consumer Price Index each year. The processing services agreement was effective as of September 23, 2010, and continues for a 5-year term; Alterna Savings has an option to renew the agreement for a further term of 2 years. Either party can terminate the master processing services agreement on 9 months' notice, but, if Alterna Savings initiates such a termination or if the bank terminates the master processing services agreement as a result of Alterna Savings' default, termination fees apply. Either party can terminate the agreement after insolvency or an unrectified material breach of this agreement, and Alterna Savings has additional termination rights if the bank fails to meet the specified service levels.

ABM Services Agreement with Threshold Financial Technologies Inc., dated November 1, 2010

This agreement provides Alterna Savings with services regarding its ABM network. Specifically, Threshold provides (at its expense except for electrical and communications connections), operates and maintains the ABMs, manages the supply of vault cash, provides settlement and reporting services, and balances and reconciles each ABM. The agreement continues until it is terminated in accordance with its terms, or until the end of the useful life of all deployed ABMs. The agreement can be terminated by either party on 6 months' notice, but, if Alterna Savings terminates on this basis, termination penalties apply. Either party can also terminate this agreement for breach, and Alterna Savings has the right to terminate the agreement if Threshold fails to attain agreed-upon service levels. Threshold has the exclusive right to provide additional ABMs to Alterna Savings.

ABM Alliance Agreement with Threshold Financial Technologies Inc. dated October 1, 2002

This agreement provides Alterna with services regarding 37 ABMs owned and operated by Threshold regarding which Alterna provides vault cash. Specifically, Threshold at its expense supplies, installs (except for the electrical connections, which are at the expense of Alterna), commissions, operates, maintains, and balances and reconciles all ABMs, and manages the vault cash supplied by Alterna. The agreement contains service level guarantees for the ABM network, and reporting obligations to demonstrate the service level guarantees are met. Threshold is also obliged to provide help desk services to Alterna members who are having difficulty processing transactions at the ABM. The agreement continues until terminated in accordance with its terms, or until there is no ABM to which the agreement pertains still in service; in no event, however, is the term to be less than five years commencing May 1, 2003. Each party has the right to terminate the agreement at any time if the other party is in material breach of its obligations under the agreement and the breach has not been remedied within 30 days after notice of the breach was given to the defaulting party, and without notice if the other party ceases operations or becomes insolvent. The agreement is exclusive.

<u>Agreement with Threshold Financial Technologies Inc., dated August 16, 2002 and amended November 20, 2007</u>

This agreement provides Alterna Savings with switching services for ABM and point-of-sale transactions. Alterna Savings pays monthly invoices for services rendered. The initial term of the agreement expired December 31, 2007 and automatically renews for further 5-year terms unless it is terminated in accordance with its terms. Either party can terminate the agreement at expiration of its term or any renewal term by giving at least 6 months notice prior to the end of that term. Either party can also terminate the agreement for breach, and Alterna Savings has additional termination rights if Threshold does not attain agreed-upon service levels.

<u>Ficanex Canadian Exchange Licensee Membership Agreement with Ficanex Services Limited Partnership effective July 12, 2001</u>

This agreement provides Alterna Savings with its membership in the Exchange Network, an ABM network. Alterna Savings pays to the limited partnership royalty and transaction fees. The agreement had an original term of five years; the parties can, if Alterna Savings is not in default, renew the agreement for additional terms of five years, and this occurred most recently July 12, 2011. Ficanex can terminate the agreement immediately if Alterna Savings has not corrected a breach of the agreement within 30 days after being notified of the breach. Ficanex and Alterna Savings can terminate the agreement immediately for certain breaches. Particular rules apply in mergers, depending on the membership status in the network of the entity with which Alterna Savings is merging. The agreement is governed by the laws of British Columbia.

<u>Third Amended and Restated Financial Institution Agreement with MBNA Canada Bank, effective June 1, 2011</u>

This agreement enables Alterna Savings to provide MasterCard credit cards to its personal and business members. This agreement is exclusive. MBNA makes all credit decisions regarding the credit cards, and bears all credit risk unless Alterna has specifically guaranteed payment of the balance outstanding on a particular credit card. MBNA pays Alterna Savings royalties as specified in the agreement. The agreement continues until January 31, 2017, and thereafter renews automatically for 2-year terms unless either party notifies the other of its desire to terminate the agreement. Either party can terminate the agreement for an unrectified material default.

Toronto-Dominion Bank Group has recently announced plans to purchase the Canadian credit card portfolio of MBNA Canada. Closing of this transaction is anticipated in the first quarter of 2012.

<u>Administration Agreement (Group Creditor Insurance) with CUMIS Life Insurance Company, dated January 1, 2010</u>

This agreement provides Alterna Savings with access to creditor life and health insurance products for its members. Alterna Savings is obliged to promote these products to its members, and to follow

CUMIS' procedures. This agreement is exclusive. In return for Alterna Savings' efforts, CUMIS pays Alterna Savings an administration fee. The agreement has a 5-year term, and renews at expiration for further terms of 1 year unless the agreement is terminated in accordance with its terms. The agreement can be terminated immediately at any time for cause; as well, either party can require the other to negotiate an early termination of the agreement. Alterna Savings is entitled to a profit-sharing payment from CUMIS in certain circumstances.

Master Operating Agreement with Qtrade Canada Inc., Qtrade Securities Inc., and Qtrade Asset Management Inc., dated December 16, 2008, as amended November 22, 2010; Agreement with Qtrade Canada Inc. and Qtrade Investor Inc. dated May 24, 2002

These agreements enable Alterna Savings to offer online brokerage services, mutual fund dealer services, full-service brokerage services, and life insurance products to its members. This agreement is exclusive, and includes service level requirements. Alterna Savings receives revenue-sharing payments as specified in the agreement. The agreement has an 84-month term. Both parties have termination rights on breaches by the other. Assignment of the agreement requires prior written consent, but these provisions do not apply in case of an asset sale or amalgamation.

Canada Mortgage and Housing Corporation – Canada Mortgage Bond Program Credit Union Agreement as of December 1, 2008

This agreement provides Alterna Savings with access, through Central 1, to the Canada Mortgage and Housing Corporation's Canada Mortgage Bond Program, which is a securitization program enabling Alterna Savings to sell insured and uninsured Mortgage Loans to Central 1 for inclusion in the program. Alterna Savings continues to service the Mortgage Loans. The agreement can only be terminated by either party when there are no Mortgage Loans involved in the program.

International Swaps and Derivatives Association Master Agreements with various counterparties

These agreements enable Alterna Savings to enter into derivative contracts with various counterparties.

For further information regarding the derivative instruments Alterna Savings has outstanding as of May 31, 2011, see note 23 to the annual consolidated December 31, 2010, 2009 and 2008 financial statements attached hereto as Schedule B, beginning at page 33 of that schedule.

Outsourcing Agreement with CS Alterna Bank, made October 2, 2000, as amended to November 12, 2009

This agreement requires Alterna Savings to provide certain services to CS Alterna Bank. The bank appoints Alterna Savings as its services provider, as an independent contractor. The bank requests services, and Alterna Savings provides them for the fee as outlined in the agreement, which cannot exceed the fair market value of the services provided. Alterna Savings, in providing the services, is obliged to meet the standard of a responsible and prudent services and facilities provider and manager of equivalent experience and commercial sophistication. The agreement may be terminated by either party on 6 months' notice, or immediately in the case of the other party's insolvency.

MANAGEMENT DISCUSSION AND ANALYSIS

The purpose of this report is to provide the readers of this offering statement with Management's insights of Alterna Savings' strategy and financial performance as reported in the attached interim consolidated financial statements as of May 31, 2011, and in the annual consolidated financial statements for the 2008, 2009 and 2010 fiscal years.

Strategic Plan

Over the course of 2010, the Board and Management developed a new five-year strategic plan for Alterna Savings, one that drives the profitable growth necessary to the delivery of quality, sustainable service to the membership. Our strategy is to be differentiated on the basis of our service leadership within targeted segments, to be a strong regional credit union that enjoys sufficient scale and economies to be sustainable while acting small enough to be relevant to individual communities, and to leverage our infrastructure to create new opportunities.

Our strategic plan will be enabled by gaining insight on our existing and prospective members which will drive resource allocation towards service improvement and activities that are meaningful to those segments. We will increase our rate of growth and revenue which will increase our organizational efficiency and profitability for the benefit of all members.

Early outcomes of our Strategic Plan can be seen by our recent expanded Wealth Management offering, in partnership with Qtrade, to better meet the financial planning and investment needs of our members and the growing need for aging Canadians. A further example is our new and improved website and enhanced online banking service, which are currently under development, reflecting our desire to continually build even stronger and beneficial relationships with our current and future members. Finally, an internal review and enhancement of management practices in certain key processes has been undertaken to improve organizational efficiency and effectiveness as well as to enhance our members' service experience.

In the normal course, Alterna monitors and adjusts its strategy as appropriate in response to changes in market conditions.

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board approved January 1, 2011 as the transition date to International Financial Reporting Standards. At that date, the accounting framework under which financial statements in Canada were prepared for all publicly accountable enterprises (which includes Alterna Savings) changed to IFRS. Generally accepted accounting principles in Canada (CGAAP), as we knew them, ceased to apply for Alterna and were replaced by IFRS.

Alterna Savings' three-year project to transition to these new accounting rules culminated with a successful transition on January 1, 2011. As a result of this change, a number of retroactive adjustments to balance sheet accounts were required on January 1, 2011 under IFRS and recorded directly through retained earnings. The impact, net of income taxes, was a reduction of over $11 million to equity.

The interim consolidated financial statements as at May 31, 2011 enclosed in this offering statement are prepared under IFRS, while the annual consolidated financial statements as at December 31, 2010 were produced under the former CGAAP.

The main impacts on the May 2011 balance sheet are twofold. First, residential mortgage securitizations are now treated as on-balance sheet financing transactions, where as these portfolios were considered sold and removed from the balance sheet under CGAAP. As a result, the balance of these residential mortgages is added back to the balance sheet assets with an equivalent increase to liabilities under borrowings (at approximately $48 million on May 31, 2011). Second, several rules have changed, including those for employee benefit plans and securitization transactions, which required retroactive accounting adjustments to related balances and resulted in a one-time decrease of $11.6 million to equity upon transition from CGAAP to IFRS. This one-time adjustment equates to a 0.56% reduction in Alterna Savings' Leverage Ratio.

Capital Plan

In 2010, we developed an enhanced capital plan to validate that we have enough Regulatory Capital to support the implementation of our strategic plan, to cover the one-time IFRS related adjustment to retained earnings and to guard against our risk exposures over the next three years. We concluded that our Regulatory Capital was sufficient in the short term, but that a further injection of Regulatory Capital in the form of investment shares would be prudent and would give us additional leverage to move comfortably forward in delivering on our strategy. The major action item stemming from this capital plan is the present Class A Investment Shares, Series 3 offering.

Five Months Ended May 31, 2011

The following information refers to Alterna Savings' financial position and results as reported using International Financial Reporting Standards.

Economic Landscape

The year 2011 has so far been one of continued global economic uncertainty. The ripple effect of potential sovereign debt default in certain European countries, concerns over economic data from the United States, fears of unsustainable housing prices in Canada coupled with rising Canadian household debt all combine to threaten domestic economic growth. The Bank of Canada, long signalling the need to increase interest rates to pre-empt inflation, finds itself in a holding pattern given the impact of the strong Canadian dollar on exports and the potential impact of the global market uncertainty on demand for Canadian goods and services, amongst other factors.

This economic landscape creates increased pressure for Canadian banks to compete in a slowing residential mortgage market, while deposit costs remain relatively high as many of these banks build up their deposit base. In response, Alterna Savings continues to deliver quality products and services and seeks to differentiate itself through no haggle pricing for our mortgage offering, competitive deposit pricing and community involvement. During these unique economic times, Alterna Savings continues to increase its advisory capability to help provide advice to our members to assist them with their key life moments such as retirement and loss of employment.

Financial Performance Review

Growth

Despite the noise created by the economic uncertainty and industry pricing wars, Alterna Savings remains intent in setting the stage to launch its newly-approved strategy. In doing so, upfront investments are necessary to ensure we can deliver on our promise of providing quality, sustainable service to the membership. The first and most important undertaking to date in 2011, a one-time investment of over $600,000, has been to thoroughly evaluate and take actions to improve management practices as well as the approach used to serve our members in many areas including credit granting, deposit taking and account management. The design and installation of these new processes resulted in slower credit growth than anticipated so far in 2011, as residential mortgage growth sales were temporarily disrupted in the spring. Even so, this was a small sacrifice as this project is expected to reap benefits for years to come by sustainably improving our organizational productivity.

RRSP growth fared well in early 2011 as members continued to entrust Alterna Savings with their retirement savings. Meanwhile, non-personal deposit accounts showed some depletion due to construction and funding cyclicality. By and large, the net deposit growth achieved to May 31, 2011 was sufficient to fund the growth in credit over the same period.

Operating Income

The optimization of our investment portfolio, increases in prime rate and continued growth in loans to members during the latter half of 2010 collectively produced an increase of $2.3 million in net interest income in the five month period ending May 31, 2011 compared to the same period last year. This revenue increase was offset by the impact of strategic and operational activities, as described below, culminating in operating income that is largely comparable year over year.

As indicated earlier, a new wealth management delivery model was adopted in 2011 in partnership with Qtrade. This revised approach has temporarily reduced the net revenue derived from this line of business as changes in employee roles and processes are being put into practice. With a vision of continuous strengthening and positioning of the organization in support of its clarified strategic direction, a realignment of resources has also been undertaken, resulting in changes in certain leadership management positions. The combination of these changes, added to the investment in process improvement described above, have caused a deviation in operating income. The overall $1,887,000 increase in operating expenses in the first five months of 2011, compared to the same period last year, includes nearly $1 million of non-recurring costs related to these activities, but which position Alterna for greater growth and profitability going forward. Other increased expenses reflected year-to-date in 2011 as compared to 2010 include annual salary adjustments, industry-wide increases to deposit insurance costs, and the added cost burden from the Harmonized Sales Tax which took effect on July 1, 2010.

Consequently, operating income shows a reduction of $514,000 for the five-month period of 2011 compared to 2010.

Unrealized gains on financial instruments have been primarily driven by favourable market conditions early in the year, resulting in improvements in the value of our investment in the ABCP Limited

Partnership (see section “Fiscal Year Ended December 31, 2008” on pages 49, 50 and 51 for further details on the nature and origin of this investment).

Alterna Savings’ net income for the five-month period ending May 31, 2011 is showing an increase of $200,000 over the prior year, at $2.7 million after taxes, while also exceeding the Board-approved budget by over $1.7 million.

Fiscal Year Ended December 31, 2010

The following information refers to Alterna Savings’ financial position and results as reported using Canadian Generally Accepted Accounting Principles.

Economic Landscape

For many, 2010 was a year of restructuring and recovery as organizations rebuilt, patched and reinforced their foundations. Growth in the overall economy rebounded in the second half of 2010 causing the Bank of Canada to raise interest rates by 75 Basis Points to reduce possible inflation effects into 2011. The strong economic performance, growth, and commodity prices also pushed the Canadian dollar to parity during the year. Overall, consumers led the charge in terms of purchases of retail goods and services, and the housing market rebound further stimulated economic activity.

Financial Performance Review

Overview

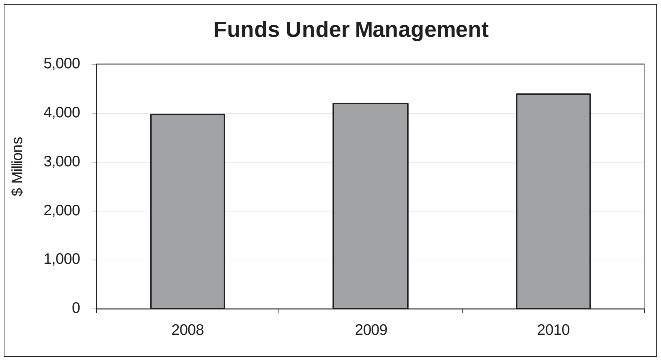
For Alterna Savings, 2010 proved to be a year of solid financial results. We continued to compete effectively by offering very attractive rates despite the challenge of tightening margins. Our membership’s stable employment base, our bedrock of stringent risk management and our vigilance on expense control helped us to weather the previous two years of global financial upheaval and uncertainty.

Overall, Alterna Savings delivered net income and asset growth which will aid in our ongoing quest to improve member products and services and meaningful investments in our communities. Assets grew by over 3% (or $68 million) in 2010 to almost $2.2 billion, while operating income of $7.6 million showed notable improvement of $2.2 million over 2009.

After accounting for unrealized losses on financial instruments due to market rate fluctuations, and provisioning for income taxes, 2010 net income increased slightly over the previous year to $4.4 million.

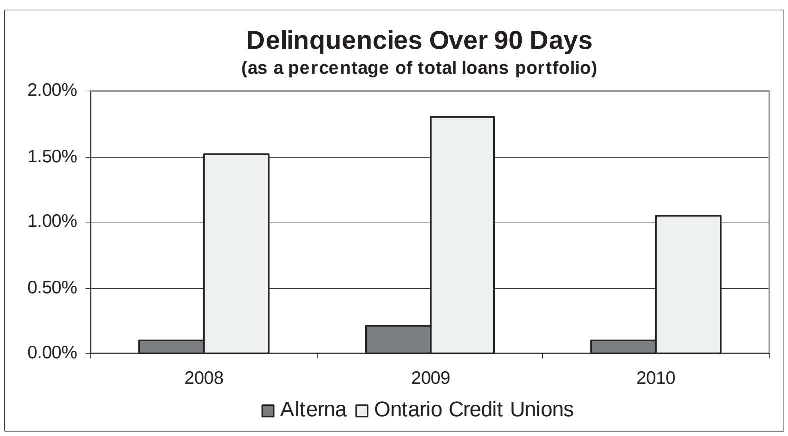
Growth

The following chart shows the steady pace of growth in total funds under management (FUM) over the past three years, highlighting Alterna Savings’ success in building relationships with its members. FUM include member loans and deposits, off balance sheet member mortgages that are part of our securitization program and that we continue to administer, as well as member mutual funds and securities balances.



Loans grew by $85 million in 2010, a volume similar to the previous year, with Alterna Savings' Fair Rate Pricing ensuring members got our best, competitive price on residential mortgages without haggling. Over and above the $58 million increase in residential mortgages, commercial borrowers also gained from our competitive pricing and the benefit of local decision-making, showing growth of $42 million.

Alterna Savings' prudent credit policies and screening processes continued to position our delinquency well below the provincial average. In 2010, our allowance for impaired loans as a percentage of total loans showed a continued decline of 2 Basis Points as compared to 2009, to 0.20%, having successfully weathered the recent years' global economic turmoil. Moreover, delinquencies over 90 days added up to 0.10% of total loans as at December 31, 2010, continuing to be much lower than the average of 1.05% of Ontario credit unions as illustrated in the following chart:



The healthy $93 million growth in deposits is attributable to members continuing to take advantage of our competitive Tax-Free Savings Accounts and attractive term deposit rates.

Interest and Non-Interest Income

Net interest income increased by $6.3 million, or almost 12%, in 2010 as careful management of our investment portfolio, continued growth in loans and deposits, competitive positioning of our interest rates and pre-payment penalties on residential and commercial mortgages offset the continuing competitive pressure on pricing.

As for other income, the decrease of $3.8 million from the previous year is directly related to the absence in 2010 of securitization transactions and gains; in 2009, we had recorded $4.2 million of such gains on securitization through the Canada Mortgage Bond program, a widely used funding channel for financial institutions discussed at page 40. Since deposit growth in 2010 was sufficient to fund loan demand, the securitization channel was not utilized.

Operating Expenses

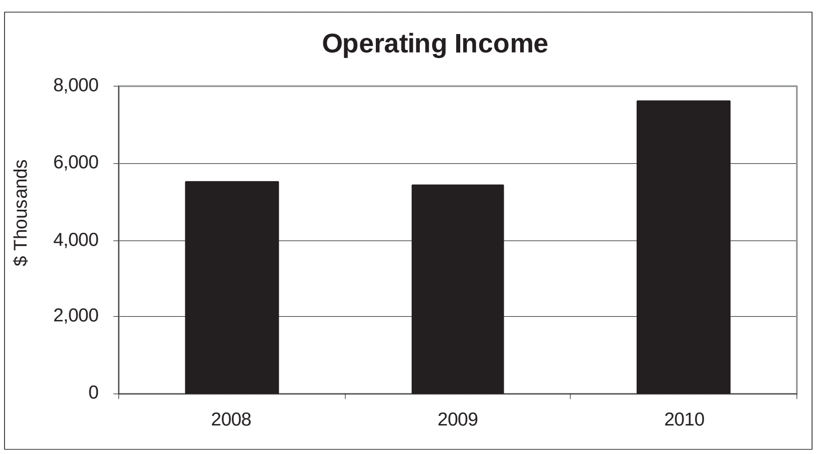
We also continued to demonstrate fiscal responsibility through the successful management of our expenses. In a year that saw the launch of Alterna Savings' new brand, we still managed to keep the overall rate of increase for 2010 expenses below that of inflation. Moreover, while working to control our expenses, we ensured that our employees were compensated competitively and rewarded for their efforts. Salary increases were provided based on market rates and employee performance, and payments were made out of our Corporate Profit Sharing Plan. These Corporate Profit Sharing Plan payments are not considered to be core operating expenses as the design of our program only allows payments when Alterna performs well; 2010 fell solidly into that category.

Unrealized Gains or Losses on Financial Instruments

Unrealized losses on interest rate swaps of $3.6 million were recorded in 2010 as a result of movements in the market's yield curve during the year. This negative impact on income was partly offset by other gains, including one of $1.6 million in the value of our investment in the ABCP LP, due to improvements in the credit market in 2010 and the passage of time which increases the discounted value of the investment closer to its par value (see section "Fiscal Year Ended December 31 2008" at pages 50 and 51 under the heading "Unrealized Gains or Losses of Financial Instruments" for further details on the nature and origin of this investment).

Operating Income

The following is a chart showing the recent years' trend in operating income which exhibits significant improvement in 2010. This progress provides evidence that efforts towards profitable growth and expense control are yielding positive results.



After-tax Net Income

After-tax net income reflects the earnings after any unrealized gains or losses in financial instruments. These unrealized gains or losses are a result of changes in the market value of specific investments and derivatives required to be reported in the income statement, but which may or may not be realized in future years. Where swaps are concerned, the gains and losses on fair value are expected to net out to zero by the time the swap expires. It is important to remember that swaps are put in place to minimize Alterna Savings' exposure to fluctuations in interest rates and not for speculative purposes. However, for financial statement purposes, accounting rules require that Alterna Savings recognize the ongoing market increases or decreases in value. After-tax net income of 2008 was unusually high due to the impact of volatile interest rates on the market value of our interest rate swaps, as referred to under section "Fiscal Year Ended December 31, 2008" under the heading "Unrealized Gains or Losses on Financial instruments" at pages 50 and 51. Interest rates have since been more stable and caused some of the 2008 gains to reverse in 2009 and 2010, thereby contributing to the after-tax net income of $4.1 and $4.4 million for these years, respectively. This level of net income was more than sufficient to pay dividends to Class A and Class B shareholders, the former having received a return of 5.63% on their investment for the past three years.

Fiscal Year Ended December 31, 2009

The following information refers to Alterna Savings' financial position and results as reported using Canadian Generally Accepted Accounting Principles.

Economic Landscape

Globally, 2009 was regarded as the most difficult year for financial services providers in more than half a century. The sub-prime financial crisis south of the boarder caused a worldwide financial credit ripple. Governments provided massive liquidity vehicles or financial guarantees to the financial sector in an attempt to keep the flow of capital moving. The Canadian economic picture turned into a full recession. The Canadian housing market contracted in terms of new construction as the public waited to see the outcome of various economic events. The Bank of Canada's strategy was to lower and hold short-term interest rates to the lowest level since the Great Depression to help stabilize the financial system along with a variety of home grown government initiatives to help stimulate growth and alleviate investor fear. In spite of these global challenges, Canadian financial institutions fared well. For its part, Alterna Savings successfully weathered the turmoil thanks to a focus on disciplined business management, effective adherence to regulatory standards, strong member service, effective leadership, prudent risk management, and profitable growth.

Financial Performance Review

Overview

Despite the worst economic turmoil in decades, Alterna Savings delivered healthy financial results in 2009. We also reached a significant milestone as our asset base surpassed the $2 billion mark during the year. Alterna Savings continued growing profitably and, in so doing, establishing a healthy financial future not only for the credit union but for the many people we touch, including our members, employees, and communities.

Our 2009 operating income held strong in the face of challenging economic conditions, remaining stable compared to 2008, at $5.4 million. After taxes, Alterna Savings registered net income of $4.1 million, lower than 2008 given the large unrealized gains on our interest rate swaps experienced in the prior year.

Growth
Alterna Savings continued to grow profitably in 2009, achieving a 6% (or $119 million) expansion in assets. In so doing, we maintained a high quality loan portfolio, and introduced a number of new products and services, including our successful Tax-Free Savings Account (TFSA).

The volatility of the economy in general and credit markets in particular prompted Alterna Savings to maintain its prudent approach to the granting of loans and mortgages. This approach slowed personal lending activity somewhat, yet credit still grew by $88 million, before deducting residential mortgages securitization transactions amounting to $69 million which were removed from the balance sheet. Not surprisingly, the volume of commercial lending business in 2009 was down compared to the prior year, but was still relatively strong at $48 million. It is particularly important to note that, despite solid growth in the commercial portfolio over the last two years, its quality continued to rank among the best in the province.

Alterna Savings' competitive TFSA offering was a key source of deposit growth in 2009, contributing to an overall increase of $130 million or over 7%. Another factor was members' evident preference for government-insured deposits, a safe and attractive investment choice during the fluctuations in equity markets.

Steady deposit growth throughout the year, combined with securitization activity, resulted in increased cash and cash equivalents on the balance sheet at year end. These excess funds were gradually invested in loans and mortgages and used to pay down borrowings throughout the following year.

Interest and Non-Interest Income
The Canadian interest rate environment continued to be fiercely competitive in 2009. Our growth in deposits and lending, combined with setting product interest rates at a competitive level that supports profitable growth, resulted in a near 7% (or $3.3 million) year over year increase in net interest income. In fact, this area delivered Alterna Savings' largest income gain in 2009. This notable revenue improvement helped to offset some of the normal increases in operating expenses and the decrease in other income, as noted below.

In 2009, other income showed a reduction of $821 thousand from the prior year. Two securitization transactions took place, as noted earlier, resulting in gains of $4.2 million, as compared to a gain of $1.1 million on portfolio sales and securitization the year before. However, this increase in securitization gains was not quite sufficient to replace the gains on sale of properties and other non-recurring income that were recorded in 2008.

Operating Expenses
The net increase in operating expenses is directly related to payments made out of our employee Corporate Profit Sharing Plan which was reintroduced during the year. As previously noted, these payments are not considered to be core operating expenses as the design of our program will only allow payments when Alterna Savings performs well. The 2009 results again fell solidly into that category.

Otherwise, expenses remained flat from 2008 levels, a reflection of the organization's continued, focused control on spending.

Unrealized Gains or Losses on Financial Instruments
A significant increase in the market value of interest rate swaps, related to 2008's interest rate volatility, had enhanced the value on these financial instruments resulting in unrealized gains of $11.2 million in the prior year. As expected, this trend reversed in 2009 as our derivatives approached maturity or expired. The 2009 unrealized losses of $3.2 million, compared to prior year gains, primarily drove the $9.2 million decline in unrealized gains and losses on financial instruments. Again, the reader is reminded that swaps are put in place to minimize Alterna Savings' exposure to fluctuations in interest rates. However, for financial statement purposes, accounting rules require that Alterna Savings recognize the ongoing market increases or decreases in value. Although the market value of an interest rate swap fluctuates during the course of its life, such changes will net out to zero by the time the derivative expires.

A partial offset to the impact of the swaps' fair value was an increase in fair value of Alterna Savings' share of the ABCP LP that was acquired when the Ontario Central merged with the BC Central in 2008. The paper was written down in 2008 by $2.6 million but $1.3 million of its value was recovered in 2009 as market conditions improved.

Fiscal Year Ended December 31, 2008

The following information refers to Alterna Savings' financial position and results as reported using Canadian Generally Accepted Accounting Principles.

Economic Landscape
Alterna Savings celebrated its 100th anniversary in 2008 – a year that saw unprecedented turmoil in our economy.

The turbulence in the capital markets over the preceding eighteen months, coupled with a deepening global economic recession and volatile interest rates, gave rise to a variety of challenges for all financial institutions in 2008. The headlines and write-downs both in the United States and Canada because of the sub-prime mortgage market worsened before they got better. Short-term interest rates on both sides of the border fell rapidly as the US Federal Open Market Committee (FOMC) tried to advert a major recession and the Bank of Canada tried to suppress an ever rising dollar. The financial turmoil continued as Canadian chartered banks disclosed and wrote-off sub-prime investments, and problematic asset-backed commercial paper (ABCP) investments. Despite the commotion, overall the Canadian economy continued to grow slightly and the Canadian housing market provided for stable house prices and consistent new loan growth compared to its US counterparts.

Financial Performance Review
Overview
Alterna Savings experienced record growth in 2008 with assets expanding by 10.5% (or $189 million). Operating income of $5.5 million showed marked improvement of $1.2 million over the prior year when excluding the impact of the remaining merger integration costs, and this during a very challenging year for the financial services industry. Net income after tax of $10.6 million was also significantly higher than the year before, driven by unrealized gains on financial instruments, as

discussed further below.

Growth

Alterna Savings' loan portfolio grew by 12% (or $179 million). This result was net of residential mortgages pools of $39 million which were sold to third parties or securitized via CMHC's Canada Mortgage Bond (CMB) program. We were especially proud of the progress we made on the commercial side of our business, where credit grew by 42% (approximately $180 million) to over $600 million during the year. This achievement reflects our continued focus on providing value to small- and medium-sized businesses.

Even through this recessionary environment and important growth in credit, our allowance for impaired loans as a percentage of total loans decreased to 0.23% by the end of 2008, from 0.29% the year before, a testimony to our sound lending practices.

The above growth in loans was funded by an even stronger increase in deposits, at $202 million or 13%. A large portion of this inflow resulted from the introduction of the Investment Savings Account (ISA), a high-yield demand deposit which brought in approximately $160 million of new external money.

Interest and Non-Interest Income

Net interest income decreased by $4 million to $49.2 million, as a result of an increase in cost of funds due to the scarcity of market funding availability caused by the credit crisis as well as our new higher-cost ISA deposit product.

Other (non-interest) income reached $17.5 million in 2008, up by $3.3 million as compared to the prior year. This increase was mainly driven by gains on the disposal of two properties in the Greater Toronto Area which were not required for operating purposes. To this was added a gain of $1.1 million on residential mortgage portfolio sales and securitization, as referred to previously.

Operating Expenses

In 2008, Alterna Savings focused on aggressively managing its costs, which allowed us to keep operating expenses below 2007 levels by almost $1 million.

Unrealized Gains or Losses on Financial Instruments

In 2008, these consisted of unrealized gains on our swaps during the year, which were partially offset by losses on asset-backed commercial paper (ABCP) purchased by Credit Union Central of Ontario, as noted below.

The unrealized gain on our swaps amounted to $11.2 million and resulted from the increase in the swaps' fair value following changes in the market's yield curve. Unless a swap agreement is terminated, the unrealized gains and losses on its fair value will net out to zero by the time the contract expires. Since Alterna had no intention of terminating the agreements, the unrealized gain recorded in 2008 was expected to reverse in subsequent years.

The economy had another significant impact on the credit union during the year. The global financial crisis began with problems with sub-prime mortgages in the U.S. where lending practices were lax.

Although Alterna Savings had no direct exposure to sub-prime mortgages, we had an indirect exposure to ABCP through our membership at the time in Credit Union Central of Ontario (Ontario Central), the trade association and primary banking services provider for the majority of Ontario credit unions. Alterna Savings and other Ontario credit unions, already indirect owners of ABCP by virtue of an ownership position in Ontario Central, were obligated to take control of these investments when Ontario Central merged with Credit Union Central of British Columbia to form Central 1 Credit Union on July 1, 2008. These funds are now being held proportionately by Ontario credit unions in a limited partnership (ABCP LP). Alterna Savings' share of this investment was $9 million at year end, which represented a decrease of $2.6 million in market value since it was acquired. Also, as a result of Ontario Central's ABCP holdings prior to its merger, Alterna Savings' investment in Ontario Central was written down by $782 thousand in 2008 to reflect our proportional share of Central's residual deficit.

The following table presents financial performance indicators for the five months ended May 31, 2011, and for the fiscal years ended December 31, 2010, 2009 and 2008. These figures are based on the interim consolidated financial statements for the five-month period, and on the annual consolidated financial statements as at each fiscal year-end. (Figures provided as Basis Points ("bp") are calculated on the basis of average assets held during the fiscal period, calculated as a simple average of the opening and closing total asset balance.)

Financial Performance Indicators	Unaudited Five Months ended May 31, 2011 (under IFRS[1])	Year Ended December 31, 2010 (under CGAAP[2])	Year Ended December 31, 2009 (under CGAAP)	Year Ended December 31, 2008 (under CGAAP)
Profitability				
Total assets ($000's)	$2,220,172	$2,167,518	$2,099,219	$1,980,160
Net income ($000's)	$2,731	$4,426	$4,138	$10,625
Net income (bp)3	30	21	20	56
Net interest income (bp)	283	276	258	261
Loan costs (bp)	8	6	7	4
Other income (bp)	50	60	82	93
Operating expenses (bp)	294	294	306	321
Integration costs (bp)	0	0	(0)	(2)
Unrealized gains (losses) on financial instruments (bp)	2	(8)	(7)	41
Provision for (recovery of) income taxes (bp)	4	7	(1)	12
Compliance with Capital Requirements				
Risk-Weighted Assets Ratio requirement (% of Risk-Weighted Assets)	8.00%	8.00%	8.00%	8.00%
Risk-Weighted Assets Ratio (% of Risk-Weighted Assets)	9.10%	9.78%	10.27%	10.65%
Leverage Ratio requirement (% of total assets)	4.00%	4.00%	4.00%	4.25%
Leverage Ratio (% of total assets)	5.42%	5.86%	6.15%	6.47%
Loan Composition				
Total gross loans outstanding ($000's)	$1,877,046	$1,816,486	$1,731,490	$1,711,994
Personal Loans (% of gross loans outstanding)	13.15%	13.86%	15.43%	15.49%
Mortgage Loans (% of gross loans outstanding)	48.89%	47.88%	46.88%	49.20%
Commercial Loans (% of gross loans outstanding)	37.96%	38.26%	37.69%	35.31%
Loan Quality				
Allowance for impaired loans (% of gross loans outstanding)	0.15%	0.20%	0.22%	0.23%
Other Factors				
Total members' deposits ($000's)	$2,003,002	$1,997,139	$1,904,609	$1,774,887
Average liquidity (% of members' deposits and borrowings)	13.50%	13.93%	15.06%	9.08%
Asset growth (% change)	0.32%	3.25%	6.08%	10.55%
Total Regulatory Capital ($000's)	111,112	$119,567	$118,333	$121,246
Regulatory Capital growth (% change)	(7.07%)	1.04%	(2.40%)	12.0%

[1]International Financial Reporting Standards [2]Canadian generally-accepted accounting standards [3]Return on Average Assets

Discussion of impact of IFRS on the above May 2011 figures can be found at pages 41 and 42.

Further analysis is presented in the interim consolidated financial statements that are attached hereto as Schedule A, and the annual consolidated financial statements that are attached hereto as Schedule B.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The financial disclosure in this document, including the interim consolidated financial statements attached hereto as Schedule A and the annual financial statements attached hereto as Schedule B, is the responsibility of management.

The audited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles while the interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The consolidated financial statements, out of necessity, contain items that reflect the best estimates and judgments of the expected effects of current events and transactions with appropriate consideration to materiality. All other financial disclosure is derived from the financial statements.

In discharging its responsibility for the integrity and fairness of all financial disclosure, management has developed and maintains a system of internal controls designed to provide reasonable assurance that only valid and authorized transactions are processed, assets are safeguarded and proper records are maintained. Internal audit provides management with information to assess the adequacy of these controls.

Alterna Savings' Board of Directors is responsible for ensuring management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving all published financial statements. The Board of Directors carries out this responsibility principally through its Finance and Audit Committee, which is comprised of directors who are not officers or employees of Alterna Savings. The Finance and Audit Committee reviews any published financial statements and recommends them to the Board of Directors for approval. The Finance and Audit Committee conducts such review and inquiry of management and the internal and external auditors as it deems necessary to establish that the entity employs an appropriate system of internal controls over the financial reporting process, auditing matters and financial reporting issues to satisfy itself that management is properly carrying out its responsibilities. The internal and external auditors have full and unrestricted access to the Finance and Audit Committee with and without the presence of management.

The Deposit Insurance Corporation of Ontario (DICO) conducts periodic examinations of the business and affairs of Alterna Savings to determine whether the provisions of the *Credit Unions and Caisses Populaires Act, 1994 (Ontario)* are being complied with, and that Alterna Savings is in sound financial condition. Ernst & Young LLP, the external auditors, have examined the consolidated financial statements attached hereto as Schedule B in accordance with Canadian generally accepted auditing standards and their report is shown as part of those statements.

John Lahey	José Gallant
President & Chief Executive Officer	Senior Vice President & Chief Financial Officer
Ottawa, Ontario	Ottawa, Ontario
August 29, 2011	August 29, 2011

AUDITORS' CONSENT

To the Members of Alterna Savings and Credit Union Limited

We have read the offering statement of Alterna Savings and Credit Union Limited ("Alterna Savings") dated August 29, 2011 relating to the issue and sale of Class A Investment Shares, Series 3 of Alterna Savings. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the attachment to and incorporation by reference to the above-mentioned offering statement of our report to the Members of Alterna Savings on the balance sheets of Alterna Savings as at December 31, 2010, 2009 and 2008, and the statements of income, changes in members' equity , comprehensive income and cash flows for the fiscal years ended December 31, 2010, 2009 and 2008. Our report is dated July 8, 2011.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Ernst & Young LLP
Chartered Accountants, Licensed Public Accountants

Ottawa, Ontario
August 29, 2011

CONSENT FROM CS ALTERNA BANK

August 29, 2011

In connection with the requirements of section 983(1) of the *Bank Act* and the *Name Use (Bank) Regulations* passed pursuant thereto, CS Alterna Bank hereby consents to the use by Alterna Savings and Credit Union Limited (“Alterna Savings”) of its name “CS Alterna Bank” within an offering statement made by the Credit Union and dated August 29, 2011 for the issue of 35,000,000 Class A Investment Shares, Series 3.

Doug Ellis
Chair of the Board
CS Alterna Bank

STATEMENT OF OTHER MATERIAL FACTS

There are no other material facts relating to the issues of securities in this offering statement which have not been suitably disclosed herein.

BOARD RESOLUTION

July 8, 2011

"The Board of Directors of Alterna Savings and Credit Union Limited approves the issue of Series 3, Class A Special Shares (Class A Investment Shares, Series 3), subject to the Articles of Amalgamation and Articles of Amendment of Alterna Savings and Credit Union Limited, and as described in the Offering Statement to be dated August 29, 2011."

I certify the above to be a true copy of a resolution adopted by the Board of Directors of Alterna Savings and Credit Union Limited at their meeting of July 8, 2011.

Madeleine Brillant

Madeleine Brillant, Corporate Secretary

CERTIFICATE

Form 1

Credit Unions and Caisses Populaires Act, 1994

CERTIFICATE OF DISCLOSURE

(Subsection 77 (4) of the Act)

The foregoing, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Offering Statement as required by Part V of the Credit Unions and Caisses Populaires Act, 1994, and the regulations thereunder.

Dated at Ottawa, Ontario, August 29, 2011

John Lahey, President and Chief Executive Officer

Johanne Charbonneau, Chair

Class A Investment Shares, Series 3

GENERAL SUBSCRIPTION, TRANSFER AND REDEMPTION FORM

Alterna Savings

1. MEMBER

Account # /__/__/__/__/__/__/__/__/   RRSP /__/   TFSA /__/   Non-Reg /__/

Subscriber:

____

Joint Subscriber (if applicable, N/A for TFSA/RRSP purchase):

____

Joint Purchaser Account # /__/__/__/__/__/__/__/__/

Address of Purchaser (Ontario or Quebec only):

____

____

____

Home Telephone ( ) ________ - ________________

Work Telephone ( ) ________ - ________________

2. PURCHASE

Purchase Amount

($1 per share) /__/__/__/__/__/__/__/

/__/__/__/__/__/__/__/__/__/ ________________

S.I.N   Date of Birth

/__/__/__/__/__/__/__/__/__/ ________________

S.I.N   Date of Birth

OFFICE USE ONLY: Request Received

Date: ________________

Time: ________________

Employee Initials: ________________

3. SOURCE OF FUNDS

Please indicate the source of funds to be used to purchase the shares. Funds will be transferred into a special interim term deposit (bearing interest at 3.25% per annum) and held to guarantee availability on the closing date. Holds will be released at the earliest of: (a) the date the offering closes and the shares have been purchased; (b) the date the share offering is withdrawn or cancelled by Alterna Savings or (c) the day you exercise your right not to purchase these shares (see the Offering Statement for details on the date this right expires).

Account /__/__/__/__/__/__/__/__/   Suffix _______   Funds to be held $ ________________________

4. TRANSFERS & REDEMPTIONS

All redemptions and transfers of shares are subject to the approval of Alterna Savings' Board of Directors. **Transfers** are permitted only to other Alterna Savings' members at a price equal to the paid-up amount thereof plus any declared and unpaid non-cumulative dividends. Transfers will not be permitted until the fifth anniversary of the issuance of the shares. **Member Initials:** ________ / ________

Redemptions are processed on a first-come first-serve basis, with priority to deceased members and estate accounts, within the 60 day period following the end of the 5th fiscal year following the fiscal year in which the shares are issued, and annually thereafter. The redemption amount will be the paid-up amount thereon plus any declared but unpaid non-cumulative dividend. The total number of shares redeemable in one year is subject to restrictions, and **will be limited to a maximum of 10% of the total outstanding shares at the beginning of that fiscal year.** If Alterna Savings is unable to honour your request, your request will be carried forward and included in the redemptions to be considered in the applicable 60 day period in the next year. **Member Initials:** ________ / ________

/__/ Please **transfer** the following shares as indicated:

Total shares to be transferred: $ ____________________

Transfer price: ____________________

RRSP Contract # (if applicable): ____________________

Transfer to: ________________________________

Member Name: ________________________________

OFFICE USE ONLY

Account /__/__/__/__/__/__/__/__/   Suffix ____________

/__/ Please **redeem** the following shares as indicated:

Total shares to be redeemed: $ ____________________

RRSP Contract # (if applicable): ____________________

Note: Funds withdrawn from RRSP will occasion withholding taxes.

Deposit to: ________________________________

Member Name: ________________________________

OFFICE USE ONLY

Account /__/__/__/__/__/__/__/__/   Suffix ____________

5. DIVIDEND PAYMENTS

All dividends will be paid in cash to an account of your choosing. Please identify the account to which you would like to have your dividend payments transferred to in the space below. **Dividend payments will be made on an annual basis after the end of each fiscal year. IF they have been declared by the Board, as per the Offering Statement. All payments will be treated as interest income by CRA.**

/__/ Non-Reg (Deposit to Savings/Chequing account)   Suffix ____________

/__/ TFSA/RRSP (Deposit to Registered Savings account)   Suffix ____________

6. AUTHORIZATION

All Statements as applicable.

(1) I/We hereby subscribe for ________________ Class A Investment Shares, Series 3, at a price of $1 per share.

(2) I/We acknowledge having received and read the Offering Statement dated August 29, 2011 for Alterna Savings and, in particular, the terms and conditions set out on pages 16-21, and also the Risk Factors starting on page 21. **Member Initials:** ________/________

(3) I/We understand that, if purchased jointly, shares will be registered to us as joint tenants and right of survivorship applies (not applicable to Quebec residents).

(4) I/We hereby authorize the hold on funds set out in Section 3.

(5) I/We hereby authorize the transfer of the shares as indicated above or request their redemption as indicated above, as applicable.

(6) I/We understand that the securities being purchased are NOT eligible for insurance through the Deposit Insurance Corporation of Ontario or any similar agency. **Member Initials:** ________/________

Note: for transfers and redemption requests, the signature of all registered holders is required.

Member's Signature	Employee Name and Branch (please print)
Joint Member's Signature	Date

Original - Financial Services during subscription period, then Member file, Copy 1 - Branch (EDP), Copy 2 – Member

AUTHORIZATION TO PLACE FUNDS IN ESCROW

Name of Member: ____

Date: ___________

I have subscribed today to buy a total of ___________________ Class A Investment Shares, Series 3, of Alterna Savings and Credit Union Limited (the "Credit Union"). By signing this form below, I hereby authorize Alterna Savings to place the funds specified below, as soon as such funds are made payable to Alterna Savings, into an Escrow account, to be trusteed by Concentra Trust, to guarantee payment for these shares.

These funds will be released from Escrow only in one of the following four manners:

1. Upon the offering being closed, Concentra Trust will release the funds from Escrow to Alterna Savings to pay for the shares on the Issue Date.
2. If the offering is withdrawn or cancelled for any reason, Concentra Trust will immediately release the non-RRSP funds from Escrow and pay them to me, together with interest calculated at the rate outlined in paragraph 5 below, pro-rated for the number of days such funds were in Escrow.
3. If I exercise my right to reverse my decision to purchase these shares within two days, excluding weekends and holidays, following receipt of a copy of the offering statement, dated August 29, 2011, for the Class A Investment Shares, Series 3, Concentra Trust will immediately release the non-RRSP funds from Escrow and pay them to me, together with interest calculated at the rate outlined in paragraph 5 below, prorated for the number of days such funds were in Escrow.
4. If all or part of such funds which are used to purchase shares are identified as being part of a Registered Retirement Savings Plan (RRSP) contract, the RRSP funds will be transferred directly into an RRSP contract held in Escrow at Alterna Savings under the control of Concentra Trust. If not used to pay for shares under the terms outlined above, the RRSP funds will stay in such RRSP contract until I have given Concentra Trust direction as to their disposition.
5. Interest will be calculated at a rate of 3.25%, pro-rated for the number of days the funds were in Escrow.

The source(s) of funds and dollar amount(s) to be placed in Escrow under this agreement is (are):

Source ____ $ __________

Source ____ $ __________

______________________________ ______________________________

(Credit Union Witness) (Credit Union Member/Share Subscriber)

______________________________ ______________________________

(Credit Union Witness) Joint Subscriber(if any)

SCHEDULE A
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Interim Consolidated Financial Statements of

ALTERNA SAVINGS

May 31, 2011

ALTERNA SAVINGS
Interim Consolidated Balance Sheet (in thousands of dollars)
May 31, 2011 **Unaudited**

	Note	31-May-11	31-Dec-10	01-Jan-10
				Note 3
ASSETS				
Cash and cash equivalents	9	**$ 86,714**	$ 81,933	$ 166,222
Investments	4	**225,881**	229,539	160,384
Loans, net of allowance for impaired loans	5, 6	**1,874,305**	1,867,763	1,802,129
Property and equipment		**10,665**	10,898	9,736
Intangible assets		**3,541**	3,858	5,726
Derivative financial instruments		**7,131**	7,300	8,736
Income tax receivable		**359**		939
Deferred income tax asset	7	**2,659**	2,613	2,582
Other assets		**8,917**	9,252	6,979
		$ 2,220,172	$ 2,213,156	$ 2,163,433
LIABILITIES AND MEMBERS' EQUITY				
Liabilities:				
Deposits		**$ 2,003,002**	$ 1,997,139	$ 1,904,609
Borrowings		**57,578**	53,261	102,881
Income tax payable			1,578	
Deferred income tax liability	7	**777**	722	1,403
Derivative financial instruments		**3,378**	3,503	4,732
Other liabilities		**27,595**	33,216	31,601
Membership shares		**1,560**	1,578	1,779
		$ 2,093,890	$ 2,090,997	$ 2,047,005
Members' equity:				
Special shares		**24,244**	23,960	24,019
Contributed surplus		**19,282**	19,282	19,282
Retained earnings		**85,099**	82,392	77,549
Accumulated other comprehensive loss		**(2,343)**	(3,475)	(4,422)
		126,282	122,159	116,428
		$ 2,220,172	$ 2,213,156	$ 2,163,433

On behalf of the Board:

Director

Director

(See accompanying notes to the unaudited interim consolidated financial statements)

ALTERNA SAVINGS
Interim Consolidated Statement of Income (in thousands of dollars)
May 31, 2011 **Unaudited**

For the five-month period ending	Note	**31-May-11**	31-May-10
Interest income		**$ 38,247**	$ 37,458
Investment income		**1,944**	757
		40,191	38,215
Interest expense		**14,356**	14,671
Net interest income		**25,835**	23,544
Loan costs		**724**	431
		25,111	23,113
Other income		**4,587**	5,212
		29,698	28,325
Operating expenses		**26,870**	24,983
Operating income		**2,828**	3,342
Unrealized gains (losses) on financial instruments		**226**	(150)
Income before income taxes		**3,054**	3,192
Provision for income taxes	7		
Current		**487**	443
Deferred		**(164)**	218
		323	661
Net income		**$ 2,731**	$ 2,531

(See accompanying notes to the unaudited interim consolidated financial statements)

Interim Consolidated Statement of Comprehensive Income (in thousands of dollars)

For the five-month period ending	**31-May-11**	**31-May-10**
Net income	**$ 2,731**	$ 2,531
Other comprehensive income (loss), net of tax:		
Change in unrealized gains and losses on available-for-sale securities [1]	**1,126**	(887)
Change in gains and losses on derivatives designated as cash flow hedges [2]	**16**	140
Net gains and losses on derivatives designated as cash flow hedges transferred to net income [3]	**(10)**	(112)
	1,132	(859)
Comprehensive income	**$ 3,863**	$ 1,672

[1] Net of income tax expense of $206 (31 May 2010 - recovery of $163)

[2] Net of income tax expense of $4 (31 May 2010 - expense of $25)

[3] Net of income tax recovery of $2 (31 May 2010 - recovery of $21)

(See accompanying notes to the unaudited interim consolidated financial statements)

ALTERNA SAVINGS
Interim Consolidated Statement of Changes in Equity (in thousands of dollars)
May 31, 2011 **Unaudited**

For the five-month period ending	**31-May-11**	**31-May-10**
Special shares:		
Balance, beginning of period	**$ 23,960**	$ 24,019
Net shares issued	**284**	166
Balance, end of period	**24,244**	24,185
Contributed surplus:		
Balance, beginning of period	**19,282**	19,282
Balance, end of period	**19,282**	19,282
Retained earnings, net of tax:		
Balance at beginning of period, as restated	**82,392**	77,549
Net income	**2,731**	2,531
Dividend on special shares	**(24)**	(51)
Balance, end of period	**85,099**	80,029
Accumulated other comprehensive loss, net of tax:		
Balance at beginning of period	**(3,475)**	(4,422)
Other comprehensive income (loss)	**1,132**	(859)
Balance, end of period	**(2,343)**	(5,281)
Members' equity	**$ 126,282**	$ 118,215

(See accompanying notes to the unaudited interim consolidated financial statements)

ALTERNA SAVINGS
Interim Consolidated Statement of Cash Flows (in thousands of dollars)
May 31, 2011 **Unaudited**

For the five-month period ending	**31-May-11**	**31-May-10**
Operating activities:		
Net income	**$ 2,731**	$ 2,531
Add (deduct) non-cash items:		
Allowance for impaired loans	**505**	250
Amortization of		
Property and equipment	**1,093**	1,090
Intangibles	**846**	930
Deferred charges	**164**	212
Decrease (increase) in assets		
Fair value of investments	**(2,171)**	440
Interest receivable	**(830)**	572
Deferred income taxes	**(198)**	78
Loans	**(7,213)**	(11,827)
Assets relating to derivative financial instruments	**468**	(23)
Increase (decrease) in liabilities		
Interest payable	**(2,170)**	(2,283)
Deposits	**5,085**	38,422
Liabilities relating to derivative financial instruments	**(125)**	38
Other items, net	**(4,658)**	(463)
Cash provided by (used in) operating activities	**(6,473)**	29,967
Investing activities:		
Proceeds from maturity and sale of investments	**69,821**	105,185
Purchase of investments	**(61,824)**	(111,826)
Acquisition of property and equipment	**(860)**	(448)
Acquisition of intangible assets	**(529)**	(59)
Cash provided by (used in) investing activities	**6,608**	(7,148)
Financing activities:		
Net increase (decrease) in		
Membership shares	**(18)**	(86)
Special shares	**284**	170
Borrowings	**4,321**	(5,923)
Capital lease obligations	**83**	259
Dividend on special shares	**(24)**	(51)
Cash provided by (applied to) financing activities	**4,646**	(5,631)
Increase in cash and cash equivalents during the period	**4,781**	17,188
Cash and cash equivalents, beginning of period	**81,933**	166,222
Cash and cash equivalents, end of period	**$ 86,714**	$ 183,410
Supplemental information:		
Interest paid	**$ 17,155**	$ 18,034
Income taxes paid	**$ 2,422**	$ (234)
Property and equipment acquired through capital leases	**$ (185)**	$ (236)

(See accompanying notes to the unaudited interim consolidated financial statements)

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"). Qualifying member deposits are insured by the Deposit Insurance Corporation of Ontario ("DICO"). Alterna Savings is the ultimate parent.

The registered office address of Alterna Savings is 400 Albert Street, Ottawa, Ontario, K1R 5B2. 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 interim consolidated financial statements for the five-month periods ended May 31, 2011 and 2010 were authorized for issue in accordance with a resolution of the Board of Directors on July 8, 2011. The Board of Directors have the power to amend the financial statements after issuance only in the case of discovery of an error.

2. SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The interim consolidated financial statements of Alterna Savings have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34), as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company expects to adopt in its consolidated financial statements for the year ending December 31, 2011. These interim consolidated financial statements include disclosure for the first-time adoption of International Financial Reporting Standards ("IFRS") including a reconciliation from previously applied Canadian Generally Accepted Accounting Principles ("CGAAP").

Alterna presents its balance sheet broadly in order of liquidity.

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

BASIS OF PREPARATION

The interim consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale investments, derivative financial instruments and financial assets and financial liabilities held at fair value through profit or loss and held for trading, that have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from management's estimates. The significant accounting policies are as follows:

a) CHANGES IN ACCOUNTING POLICIES:

(i) First-time application of IFRS
Until December 31, 2010 Alterna Savings prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). Alterna Savings followed the provisions of IFRS 1, "First Time Adoption of IFRS", in preparing its opening IFRS balance sheet as of the date of transition, January 1, 2010. Certain of Alterna Savings' IFRS accounting policies used for the opening balance sheet differed from its Canadian GAAP policies applied at the same date. Therefore, as required by IFRS 1, the resulting adjustments required to the opening consolidated balance sheet were recognized directly through retained earnings as of January 1, 2010. This is the effect of the general rule of IFRS 1, which is to apply IFRS retrospectively. There are some exceptions required and some exemptions permitted by IFRS 1. Alterna Savings' first time adoption decisions regarding these exemptions are detailed below. Other options available under IFRS 1, which are not discussed here, are not material to Alterna Savings.

(ii) Business combinations
Alterna Savings elected not to apply IFRS 3, "Business Combinations", retrospectively to business combinations prior to the date of transition but elected to continue the carrying balances of assets and liabilities at transition to IFRS.

(iii) Deemed cost
At transition, Alterna Savings took the carrying values of all items of property and equipment on the date of transition under Canadian GAAP as their deemed cost, which is cost less accumulated depreciation.

(iv) Employee benefits
At transition, Alterna Savings recognized all cumulative actuarial gains and losses on its defined pension and benefit plans in retained earnings. Consequently there will be no unamortized cumulative actuarial gains and losses which would impact the amortization of actuarial gains and losses for current and future periods.

(v) Designation of previously recognized financial instruments
At transition, Alterna Savings designated certain of its previously recognized financial assets and liabilities at either fair value through profit or loss or as available for sale, as appropriate, under the provisions of IAS 39, "Financial Instruments: Recognition and Measurement".

(vi) Fair value measurement of financial assets or financial liabilities at initial recognition
Alterna Savings elected to apply provisions of IAS 39, "Financial Instruments: Recognition and Measurement", which require deferral of trade date profit on financial instruments carried at fair value at initial recognition, where the amount is derived from unobservable parameters or prices.

(vii) Effect of the transition to IFRS
Reconciliations of Alterna Savings' consolidated balance sheets prepared under Canadian GAAP and IFRS as of January 1, 2010 and December 31, 2010 are presented in note 3. A reconciliation of Alterna Savings' consolidated statements of comprehensive income, for the year ended December 31, 2010 and the five-months ended May 31, 2010 prepared in accordance with Canadian GAAP and IFRS, have also been presented in note 3.

b) BASIS OF CONSOLIDATION:

The interim 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 interim consolidated financial statement include the accounts and results of operations of Alterna Bank from the date on which Alterna Savings obtained control of Alterna Bank, which coincided with Alterna Bank's incorporation. The financial statements of Alterna Bank have been prepared for the same reporting period as Alterna Savings, using consistent accounting policies. 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) DETERMINATION OF FAIR VALUE:

The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model using the best estimate of the most appropriate model assumptions.

e) 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 through profit and loss ("FVTPL"), available-for-sale ("AFS"), held-to-maturity ("HTM"), loans and receivables or other financial liabilities. In addition, the standards require that all financial instruments, including all derivatives, be measured at fair value with the exception of loans and receivables, HTM assets, 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.

(i) Fair value through profit or loss (FVTPL)
Financial instruments designated as FVTPL 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 are reported in investment income while unrealized gains and losses from market fluctuations are disclosed separately.

(ii) Available-for-sale (AFS)
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. Financial assets classified as AFS are carried at fair value with the changes in fair value reported in accumulated other comprehensive income ("AOCI"), until sale or other-than-temporary impairment at which time the cumulative gain or loss is transferred to the interim consolidated statement of income. For financial assets classified as AFS, changes in carrying amounts relating to changes in foreign exchange rates are recognized in the interim consolidated statement of income and other changes in carrying amount are recognized in AOCI as indicated above.

Equities that do not have quoted market values in an active market are carried at cost. Realized gains and losses on sale as well as interest and dividend income from these securities are included in investment income.

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

Alterna Savings has not designated any financial assets as HTM.

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

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

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

f) IMPAIRMENT OF FINANCIAL ASSETS:

At each balance sheet date, Alterna Savings assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is:

- objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the balance sheet date ('a loss event');
- the loss event had an impact on the estimated future cash flows of the financial asset or group of financial assets; and
- a reliable estimate of the amount can be made.

A loss event may include indications that the borrower or a group of borrowers is experiencing significant difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Loans and loan impairment
Personal loans, residential mortgage loans and commercial loans are recorded at amortized costs less an allowance for impaired loans.

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 individual and collective 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.

Alterna Savings first assesses whether objective evidence of impairment exists individually for loans that are individually significant. It then assesses collectively for loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment under the individual assessment.

Individual allowance – To allow management to determine whether a loss event has occurred on an individual basis, all significant counterparty relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or a breach of contract, for example, default or delinquency in interest or principal payments. If there is evidence of impairment leading to an impairment loss for an individual counterparty relationship, then the amount of the loss is determined as the difference between the carrying amount of the loan, including accrued interest, and the present value of expected future cash flows discounted at the loan's original effective interest rate, including cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The carrying amount of the loan is reduced by the use of an allowance account and the amount of the loss is recognized in the interim consolidated statement of income as a component of loan costs.

Collective allowance – The collective assessment of impairment is principally to establish an allowance amount relating to loans that are either individually significant but for which there is no objective evidence of impairment, or are not individually significant, but for which there is, on a portfolio basis, a loss amount that is probable of having occurred and is reasonably estimable. The loans are grouped according to similar credit risk characteristics and the allowance for each group is determined using statistical models based on historical experience. Loans that were found not to be impaired when evaluated on an individual basis are included in the scope of this component of the allowance.

Bad debt written off – When it is considered that there is no realistic prospect of recovery and all collateral has been realized or transferred to Alterna Savings, the loan and any associated allowance is written off. Subsequent recoveries, if any, are credited to the allowance and recorded in the interim consolidated statement of income as a component of loan costs.

Reversal of impairment losses – If in a subsequent period the amount of a previously recognized impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the impairment loss is reversed by reducing the allowance account accordingly. Such reversal is recognized in the interim consolidated statement of income.

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

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

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

Restructured loans – Restructured loans are loans where the original contractual terms have been modified to provide for concessions of interest, principal or repayment for reasons related to financial difficulties experienced by the member or group of members. Alterna Savings restructures loans, depending on the situation, rather than taking possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management regularly reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(ii) Impairment of financial assets classified as available for sale
For financial assets classified as AFS, Alterna Savings assesses at each balance sheet date whether there is objective evidence that an asset or group of assets is impaired.

In the case of equity investments classified as AFS, objective evidence would include either a significant or a prolonged decline in the fair value of the investment below cost. In the case of debt securities classified as AFS, impairment is assessed based on the same criteria as for loans.

Where there is evidence of impairment, the cumulative unrealized loss previously recognized in other comprehensive income ("OCI") is removed from OCI and recognized in the interim consolidated statement of income for the period. This amount is determined as the difference between the acquisition cost (net of any principal repayments and amortization) and current fair value of the asset less any impairment loss on that investment previously recognized in the interim consolidated statement of income. Impairment losses on equity investments classified as AFS are not reversed through the interim consolidated statement of income; increases in their fair value after impairment are recognized in OCI.

Reversals of impairment of debt securities are recognized in the interim consolidated statement of income if the recovery is objectively related to a specific event occurring after the impairment loss were recognized in the interim consolidated statement of income.

(iii) Financial guarantees
In the ordinary course of business, Alterna issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are recognized initially in the financial statements at fair value on the date the guarantee is given. Subsequent to initial recognition, Alterna's liability under such guarantees is measured at the higher of the amount initially recognized, less cumulative amortization, and the best estimate of the expenditure required to settle any financial obligation as of the balance sheet date.

Any increase in the liability relating to guarantees is recorded in the interim consolidated statement of income under general and administrative expenses.

g) DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES:

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

- The rights to receive cash flows from the asset have expired; or
- Alterna 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 has transferred substantially all the risks and rewards of the asset, or
  - Alterna has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When Alterna has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of Alterna's continuing involvement in the asset. In that case, Alterna also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that Alterna has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that Alterna could be required to repay.

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

(iii) Mortgage sales
Alterna Savings may from time to time sell a portion of its residential and commercial mortgage loan portfolio to diversify its funding sources and enhance its liquidity position. These transactions are accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement and as such are derecognized from the balance sheet when the transaction meets the derecognition criteria above. When this occurs, the related loans are derecognized gains or

losses on these transactions are reported as other income on the interim consolidated statement of income. When this does not occur they are all treated as secured loan financings.

h) DERIVATIVES AND HEDGING:

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 interim consolidated balance sheet.

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

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

(ii) Hedge accounting
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 IAS 39 Financial Instruments: Recognition and Measurement. When hedge accounting is not applied, the change in the fair value of the derivative financial instrument is immediately 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 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 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.

i) FOREIGN CURRENCY:

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

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

j) PROPERTY AND EQUIPMENT:

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. 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 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

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

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

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

k) INTANGIBLE ASSETS:

An intangible asset is recognized if, and only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

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 recoverable amount. 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.

l) EMPLOYEE BENEFIT PLANS:

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

Full actuarial valuations of Alterna Savings' DB, SRIP and post-retirement benefit program are carried out not less than every three years when circumstances permit. 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 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.
The recognition of actuarial gains and losses is applied by using the immediate recognition in equity (i.e., OCI) approach under IAS 19.

(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' defined contribution plan are held in independently-administered funds.

m) 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 enacted or substantively enacted by the balance sheet date.

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

- Where the deferred 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 profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred 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 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 profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each 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 tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

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

n) LEASING:

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases which do not transfer to Alterna substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight line basis over the lease term. Contingent rental payables are recognized as an expense in the period in which they are incurred.

Assets held under finance leases are initially recognized on the interim consolidated balance sheet at an amount equal to the fair value of the leased assets or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the interim consolidated balance sheet as a finance lease obligation. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Operating lease costs are recognized as an expense on a straight-line basis over the lease term, which commences when the lessee controls the physical use of the property.

o) 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 statement of income for all interest-bearing financial instruments, except for those designated at fair value through profit or loss, using the effective interest method. The effective interest rate is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or expense over the relevant period using the estimated future cash flows. The estimated future cash flows used in this calculation include those determined by the contractual terms of the asset or liability, all fees that are considered to be integral to the effective interest rate, direct and incremental transaction costs, and all other premiums or discounts.

When a loan is classified as impaired as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Other income
Service charges, ABM network revenue, commissions and revenue from other sources are recognized as revenue when the related services are performed or are provided.

p) SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES:

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

(i) Going concern
Management has made an assessment of Alterna's ability to continue as a going concern and is satisfied that Alterna has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon Alterna's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(ii) Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data

are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

(iii) Impairment losses on loans and advances
Alterna reviews its individually significant loans and advances at each balance sheet date to assess whether an impairment loss should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, Alterna makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and advances is disclosed in more detail in Note 6.

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

Alterna also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, Alterna evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

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

NEW ACCOUNTING PRONOUNCEMENTS

The amendments to IFRS 7, "Disclosures – Transfers of Financial Assets" as well as the accounting pronouncements IFRS 9 and IFRS 9 R, "Financial Instruments" will be relevant to Alterna but were not effective as of May 31, 2011 and therefore have not been applied in preparing these financial statements.

3. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

a) RECONCILIATIONS OF EQUITY AND PROFIT AND LOSS:

Until December 31, 2010, Alterna Savings prepared its interim consolidated financial statements in accordance with Canadian GAAP. This is the first time Alterna Savings has prepared its financial statements using International Financial Reporting Standards (IFRS).

The following table sets out, by accounting topic, the main differences between Alterna's Canadian GAAP accounting policies applied at that date and the IFRS accounting policies set out in Note 2:

Canadian GAAP (CGAAP)	IFRS
CONSOLIDATION	
Three models are used to assess consolidation status: voting rights, variable interest entities (VIE) and qualifying special purpose entities (QSPE). Voting rights: ownership of a majority voting interest, directly or indirectly, of voting shares leads to consolidation. VIE: VIEs are consolidated by the interest holder that is exposed to the majority of the entity's expected losses or residual returns, that is, the primary beneficiary. QSPE: a special purpose entity (SPE) that qualifies as a QSPE is not consolidated.	Ownership of the majority of voting rights, either directly or indirectly, leads to consolidation. The concept of risk and reward applies, when the existence of control is not apparent. A SPE is consolidated by an entity where it is deemed to control it. Indicators of control include the SPE conducting activities on behalf of the entity and/or entity holding the majority or the risks and rewards of the SPE. There is no concept of a QSPE under IFRS.
TRANSACTION COSTS	
Transaction costs (e.g., brokerage, incentive, legal and appraisal fees) relating to all financial instruments other than the instruments held-for-trading, an entity can choose between accounting policy option of expensing and capitalizing. Under CGAAP, Alterna expensed the legal fees and appraisal fees paid on behalf of the members as incurred in line with AcG-4 of CGAAP.	Transaction costs are added with carrying value of financial instruments other than instruments under fair value through profit or loss. On transition to IFRS, Alterna's loan origination fees that are directly attributable and incremental to the origination of a loan are deferred and amortized.
FAIR VALUE OPTION	
Fair value option with unrealized gains and losses recognized in earnings is available for financial assets and liabilities under CICA S.3855 except for financial instruments: • Whose fair value cannot be reliably measured • Transferred in a related party transaction that was not classified as held for trading before the transaction. Transaction costs in relation to financial assets and financial liabilities designated as held for trading are recognized in the statement of income at inception.	Financial assets and financial liabilities may be designated at fair value through profit or loss on initial recognition/on transition to IFRS where: • It eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch); • They are managed and their performance is evaluated on a fair value basis. Transactions costs in relation to financial assets and financial liabilities designated at fair value through profit or loss are recognized in the statement of income at inception.
LOANS HELD FOR SALE RECLASSIFIED TO TRADING	
An entity can choose but is not required to reclassify the loans that are held for resale into held-for-trading . There is no equivalent guideline in CGAAP regarding reclassification of loan to available for sale category.	Loans with the intention to sell or securitize in the near term are classified as held for trading. Loans where the entity may not be able to recover substantially all the initial investment must be classified as available for sale.

FINANCIAL ASSETS CLASSIFIED AS AVAILABLE FOR SALE	
Impairment losses cannot be reversed regardless of whether the instrument is debt or equity. Foreign exchange gains or losses are recorded in OCI.	Impairments on debt instruments classified as available for sale should be reversed if, in a subsequent period, the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income. Impairment losses on equity instruments are not reversible. Foreign exchange gains or losses are recorded in income.
FINANCIAL ASSET DERECOGNITION	
Financial assets are derecognized based on control. Risks and rewards analysis is not a direct factor in determining financial asset derecognition.	Derecognition is based on risks and rewards. Control is only considered when substantially all risks and rewards have been neither transferred nor retained. A partial derecognition of transferred financial assets may occur where an entity has a continuing involvement in them.
SECURITIZATION TRANSACTIONS	
A transfer is recognized as a sale when the transferor surrenders control over receivables and receivables are derecognized. The transfer of assets to a qualifying special purpose entity (QSPE) is not consolidated.	IFRS focuses on substance over form. The main focus is on transfer of risks and rewards first and control second determining transfers as a sale in order for derecognition of a financial asset. The concept of a QSPE does not exist in IFRS.
IMPAIRMENT ALLOWANCE	
INDIVIDUAL ALLOWANCE: CGAAP (S3025) requires an assessment of individual loans before conducting a portfolio assessment of impairment. However, under CGAAP any loans assessed individually and determined not to be impaired are not included in the collective assessment. COLLECTIVE ALLOWANCE: CGAAP requires a general provision as an additional impairment that cannot be identified on a loan-by-loan basis which is estimated collectively for the group (S3025).	IFRS requires assessing loans that are individually significant, and individually or collectively that are not individually significant. When it is determined that no objective evidence of impairment exists for an individually assessed loan and it is determined not to be impaired, that loan is required to be evaluated on a collective basis. IFRS does not allow a general provision but it requires a portfolio based collective provision if no objective evidence of impairment exists for an individually assessed loan. The collective allowance encompasses impairment losses for the incurred but not reported (IBNR) losses.

EMPLOYEE BENEFIT PLANS	
ACCUMULATED ACTUARIAL GAINS AND LOSSES:	On transition Alterna recognized all cumulative actuarial losses in members' equity in accordance with the transitional provisions of IFRS 1.
RECOGNITION OF ACTUARIAL GAINS AND LOSSES: CGAAP allows two methods for recognizing actuarial gains and losses, which are the corridor approach or immediate recognition in profit and loss. Alterna Savings followed the corridor approach for recognizing actuarial gains and losses under CGAAP.	IAS 19, Employee Benefits describes three permissible methods for recognizing actuarial gains and losses which are the corridor approach, immediate recognition in profit and loss or immediate recognition in other comprehensive income ("OCI"). On transition to IFRS, Alterna adopted the immediate recognition in OCI approach for recognition of actuarial gains and losses.
PROPERTY AND EQUIPMENT	
Property and equipment is recorded using the cost model. Reversal of impairment loss, on subsequent recovery, is prohibited. The notion of componentization is recognized but its application is not required.	Property and equipment may be recorded using either the cost model or the revaluation (fair value) model. Alterna adopted cost model on transition to IFRS. Reversal of impairment loss, on subsequent recovery, is allowed for assets other than goodwill. There is a specific requirement to depreciate major parts of an asset separately.
DEFERRED TAXES	
The terminology used in CGAAP is "future income tax". Some future income tax is presented as current asset or liability.	The terminology used under IFRS is deferred income tax; All amounts of deferred income tax are presented as non-current. Alterna presents its interim consolidated balance sheet in order of liquidity. Accordingly, Alterna presented deferred income tax asset/(liability) on the interim consolidated balance sheet in an appropriate manner under IFRS.
RECOGNITION OF OTHER GAINS AND LOSSES	
EXTRAORDINARY GAINS/(LOSSES): Unusual and infrequent items can be presented at the bottom of the statement of income, net of tax as extraordinary gains or losses. This presentation shows it is a part of income but is dissociated from normal operation.	IFRS prohibits the use of extraordinary items either on the face of the statement of income or in notes. Such items are not dissociated from normal operations.
FINANCIAL INSTRUMENTS: Foreign exchange gains and losses accounting for available-for-sale instruments: foreign exchange gains and losses from both monetary and non monetary AFS instruments are recognized in OCI.	Foreign exchange gains and losses accounting for available-for-sale instruments: foreign exchange gains and losses from monetary and non monetary AFS instruments are recognized in statement of income and OCI respectively.

The following tables and accompanying notes summarise the effect of transition from previous Canadian GAAP (CGAAP) to IFRS on Alterna Savings' consolidated balance sheet, statement of income and statement of cash flows at transition (Jan 1, 2010) and at the end of the previous financial year.

(i) Reconciliation of consolidated balance sheet as at Jan 1, 2010 (in thousands of dollars)

	Note	**Canadian GAAP as at Jan 1, 2010**	**Adjustments**	**IFRS as at Jan 1, 2010**
ASSETS				
Cash and cash equivalents		$ 166,598	$ (376)	$ 166,222
Investments	(vi)	165,393	(5,009)	160,384
Loans, net of allowance for impaired loans	(iv), (vi), (i)	1,727,273	74,856	1,802,129
Property and equipment		9,736	-	9,736
Intangible assets	(viii)	5,926	(200)	5,726
Derivative financial instruments		8,736	-	8,736
Income tax receivable			939	939
Deferred income tax asset			2,582	2,582
Other assets	(i), (iii)	15,557	(8,578)	6,979
		$ 2,099,219	$ 64,214	$ 2,163,433
LIABILITIES AND MEMBERS' EQUITY				
Liabilities:				
Deposits		$ 1,904,609	$ -	$ 1,904,609
Borrowings	(vi)	30,000	72,881	102,881
Income tax payable	(ii)		-	-
Deferred income tax liability	(v)	719	684	1,403
Derivative financial instruments		4,732	-	4,732
Other liabilities	(vi)-(3)	29,016	2,585	31,601
Membership shares		1,779	-	1,779
		$ 1,970,855	$ 76,150	$ 2,047,005
Members' equity:				
Special shares		24,019	-	24,019
Contributed surplus		19,282	-	19,282
Retained earnings	(i), (iii), (iv), (v),	89,148	(11,599)	77,549
Accumulated other comprehensive income	(vi)-(4), (vii)	(4,085)	(337)	(4,422)
		$ 128,364	$ (11,936)	$ 116,428
		$ 2,099,219	$ 64,214	$ 2,163,433

(ii) Reconciliation of consolidated balance sheet as at Dec 31, 2010 (in thousands of dollars)

	Note	Canadian GAAP as at Dec 31, 2010	Adjustments	IFRS as at Dec 31, 2010
ASSETS				
Cash and cash equivalents		$ 81,933	$ -	$ 81,933
Investments	(vi)	232,560	(3,021)	229,539
Loans, net of allowance for impaired loans	(iv), (vi)	1,812,897	54,866	1,867,763
Property and equipment		10,898	-	10,898
Intangible assets	(viii)	4,058	(200)	3,858
Derivative financial instruments		7,300	-	7,300
Deferred income tax asset	(v)	121	2,492	2,613
Other assets	(iii)	17,751	(8,499)	9,252
		$ 2,167,518	$ 45,638	$ 2,213,156
LIABILITIES AND MEMBERS' EQUITY				
Liabilities:				
Deposits		$ 1,997,139	$ -	$ 1,997,139
Borrowings	(vi)		53,261	53,261
Income tax payable	(ii)		1,578	1,578
Deferred income tax liability	(v)		722	722
Derivative financial instruments		3,503	-	3,503
Other liabilities	(vi)-(3)	32,524	692	33,216
Membership shares		1,578	-	1,578
		$ 2,034,744	$ 56,253	$ 2,090,997
Members' equity:				
Special shares		23,960	-	23,960
Contributed surplus		19,282	-	19,282
Retained earnings	(i), (iii), (iv), (v),	92,525	(10,133)	82,392
Accumulated other comprehensive income	(vi)-(4), (vii)	(2,993)	(482)	(3,475)
		$ 132,774	$ (10,615)	$ 122,159
		$ 2,167,518	$ 45,638	$ 2,213,156

(iii) Reconciliation of interim consolidated statement of comprehensive income for the period ended May 31, 2010 (in thousands of dollars)

For the five-month period ending	Canadian GAAP as at May 31, 2010	Adjustments	IFRS as at May 31, 2010
Interest income	$ 36,074	$ 1,384	$ 37,458
Investment income	570	187	757
	36,644	1,571	38,215
Interest expense	14,353	318	14,671
Net interest income	**22,291**	1,253	23,544
Loan costs	571	(140)	431
	21,720	1,393	23,113
Other income	5,274	(62)	5,212
	26,994	1,331	28,325
Operating expenses	24,918	65	24,983
Operating Income	**2,076**	1,266	3,342
Unrealized gains (losses) on financial instruments	(150)	-	(150)
Income before income taxes	**1,926**	1,266	3,192
Provision for income taxes:			
Current	443	-	443
Deferred		218	218
	443	218	661
Net income	**$ 1,483**	$ 1,048	$ 2,531
Other comprehensive (loss) income, net of tax:			
Change in unrealized gains and losses on available-for-sale securities	(887)	-	(887)
Change in gains and losses on derivatives designated as cash flow hedges	(573)	713	140
Net losses on derivatives designated as cash flow hedges transferred to net income		(112)	(112)
	(1,460)	601	(859)
Comprehensive income	**$ 23**	$ 1,649	$ 1,672

(iv) Reconciliation of consolidated statement of comprehensive income for the year ended December 31, 2010 (in thousands of dollars)

	Note	Canadian GAAP as at Dec 31, 2010	Adjustments	IFRS as at Dec 31, 2010
Interest income		$ 90,115	$ 3,128	$ 93,243
Investment income		3,211	(115)	3,096
		93,326	3,013	96,339
Interest expense		34,482	890	35,372
Net interest income		**58,844**	2,123	60,967
Loan costs		1,313	(92)	1,221
		57,531	2,215	59,746
Other income	(i)	12,852	(174)	12,678
		70,383	2,041	72,424
Operating expenses	(iii)	62,777	69	62,846
Operating income		**7,606**	1,972	9,578
Unrealized gains (losses) on financial instruments		(1,702)	(305)	(2,007)
Income before income taxes		**5,904**	1,667	7,571
Provision for income taxes:				
Current		2,642	204	2,846
Deferred	(v)	(1,164)	-	(1,164)
		1,478	204	1,682
Net income		**$ 4,426**	$ 1,463	$ 5,889
Other comprehensive (loss) income, net of tax:				
Change in unrealized gains and losses on available-for-sale securities		(1,312)	(304)	(1,616)
Change in gains and losses on derivatives designated as cash flow hedges		1,935	(379)	1,556
Net losses on derivatives designated as cash flow hedges transferred to net income		469	537	1,006
		1,092	(146)	946
Comprehensive income		**$ 5,518**	$ 1,317	$ 6,835

b) NOTES TO THE RECONCILIATIONS:

(i) Transaction costs
Under IFRS, transaction costs related to a financial instrument must be deferred and amortized (other than for FVTPL) but under CGAAP, there is a policy choice between expensing and deferral. The legal fees and appraisal fees paid on behalf of the members were previously expensed as incurred in line with AcG-4 of CGAAP.

The deferral of transaction costs under IFRS resulted in a deferral of expenses of $292,000 as of January 1, 2010 and $86,000 as of Dec 31, 2010.

(ii) Income tax payable
IFRS requires income tax receivable/(payable) to be presented separately on the consolidated balance sheet. Under CGAAP, income tax payable was included in other liabilities. Accordingly, income tax payable has been reclassified and shown separately on the consolidated balance sheet.

(iii) Employee benefits
Defined benefit asset/(liability) – Alterna elected to adopt the transition exemption (under IFRS 1) from retrospective restatement and recognized all cumulative unamortized actuarial gains and losses (including unamortized transitional gains) in retained earnings at transition.

A defined benefit asset was previously recognized under CGAAP, and included in other assets. The recognition of defined benefit assets is different under IAS 19.58 and IFRIC 14. Alterna's defined benefit asset reduced to zero as of January 1, 2010 under IFRS, due to the application of restrictions under IFRIC 14 for recognizing such benefit assets. Alterna recorded a solvency liability of $2,893,000 as of January 1, 2010 on transition to IFRS.

Recognition of actuarial gains and losses – IAS 19, *Employee Benefits* describes three permissible methods for recognizing actuarial gains and losses which are the corridor approach, immediate recognition in profit and loss or immediate recognition in other comprehensive income ("OCI").

Under CGAAP, Alterna Savings followed the corridor approach. On transition to IFRS, Alterna adopted the immediate recognition in OCI approach for recognizing actuarial gains and losses.

(iv) Impairment allowances
Specific and general provisions for bad debt were previously recognized under CGAAP. The impairment approach under IFRS differs from CGAAP, as general provisions are no longer permitted and impairment losses can only be provided for when there is objective evidence of an incurred loss. In accordance with the impairment calculation methodology set out in IAS 39, Alterna's provisioning level has decreased by $983,000 as at 1 January 2010 and by $1,076,000 cumulatively as at 31 December 2010.

(v) Deferred tax asset/liability
Changes in deferred tax assets and deferred tax liabilities have arisen as a consequence of the different method of measurement. A net deferred tax asset has been provided for based on the changes in the carrying value of assets and liabilities.

(vi) Loans, Advances and Borrowings
(1) Under IAS 39 *Financial Instruments: Recognition and Measurement* the asset derecognition rules are such that, for specific securitized loans and receivables where the entity substantially retains the risks and rewards of ownership of these assets, those assets cannot be derecognized from the consolidated balance sheet.

Alterna Savings has participated in CMHC's Canada Mortgage Bond ("CMB") program through Central 1 whereby fixed-rate residential mortgages have been securitized through the creation of mortgage-backed securities. The securitization transactions have been accounted for as sales in accordance with CGAAP (AcG-12), Transfer of Receivables, as Alterna surrendered control of the transferred assets. Alterna Savings retained an excess-spread interest in these transferred mortgages and the responsibility for servicing them. The retained interests were included in investments on the consolidated balance sheet, the related mortgages were removed from the balance sheet and a servicing liability was recognized.

Alterna has determined that the securitization transactions do not meet the derecognition criteria under IAS 39 and, therefore, can not be derecognized. Accordingly, Alterna has recorded the transferred assets in their entirety and recognized a financial liability for the consideration received by restating the carrying values of related assets and liabilities on the consolidated balance sheet on transition to IFRS.

This change has not resulted in any impact on net assets, since an equivalent liability for securitized loan funding is also recognized to reflect the proceeds received for the securitized loans.

The balances of securitized loans as at January 1, 2010 and December 31, 2010 were $72,881,000 and $53,261,000 respectively which would have been brought back on consolidated balance sheet had this accounting policy been applied as of January 1, 2010.

(2) The balances of retained interest (CMB program) as of January 1, 2010 ($5,009,000) and December 31, 2010 ($3,021,000) have also been removed from other investments as a result of reinstating the securitized asset on the consolidated balance sheet under IFRS.

(3) The related deferred servicing income (CMB program) which was included in other liabilities under CGAAP has been removed from the consolidated balance sheet under IFRS.

(4) The related OCI balance of retained interest (AFS - CMB program) was included in AOCI under CGAAP. It has been removed from the consolidated balance sheet under IFRS.

(vii) Cash Flow Hedges
The effectiveness test for cash flow hedges is different than that under CGAAP. The CVA adjustments on the underlying swaps are not incorporated into the effectiveness test under CGAAP but they are incorporated under IFRS..

(viii) Intangible assets
Alterna's intangible assets include $200,000 that was paid by Alterna to Alterna Technologies for the rights to commercially use the "Alterna" name in November 2003. Alterna has evaluated its accounting treatment for this transaction and determined that though this intangible asset (Alterna name) meets the identifiability and control criteria, it does not meet the criteria of existence of future economic benefit under paragraph 17 of IAS 38, Intangible assets. Therefore, Alterna has removed this intangible asset on transition to IFRS.

(ix) Retained earnings
The transition from CGAAP to IFRS has the following impact on the retained earnings:

(000s)	Note	31 May 2011	31 Dec 2010	1 Jan 2010
Impact of:				
Derecognition of defined benefit asset due to IFRIC 14	(iii)	-	-	(8,138)
Income from derecognized assets (CMB program)	(vi)	1,169	1,672	(3,945)
IFRS solvency liability for DB plans / Pension expenses	(iii)	1	(7)	(2,893)
Loan loss allowance adjustment	(iv)	139	92	986
CVA adjustment on cash flow hedge ineffectiveness	(vi)	-	(29)	298
Deferral of transaction costs (mortgage incentive fees)	(i)	(36)	(86)	292
Derecognition of intangible asset (Alterna name)	(viii)	-	-	(200)
Income from retained interest – OCI	(vi)	-	27	(43)
Deferred tax asset/(liability) due to above changes	(v)	(218)	(203)	2,044
Net impact on retained earnings		1,055	1,466	(11,599)

(x) Business combination
Under IFRS 1, an entity can elect exemption from retrospective restatement at transition for all past business combinations (business combinations that occurred before transition to IFRS) or if the transition exemption is not elected, an entity needs to revisit all business combinations (before transition to IFRS) and restate the financial statements.

Alterna elected to adopt the transition exemption under IFRS 1 from retrospective restatements and will continue the carrying values for all assets and liabilities acquired from all past business combinations.

(xi) Effect on cash flow statements
There are no material differences between the consolidated statement of cash flows presented under Canadian GAAP and the consolidated statement of cash flows presented under International Financial Reporting Standards (IFRS).

4. INVESTMENTS

(000s)	**31 May 2011**	31 Dec 2010	1 Jan 2010
Designated as available-for-sale:			
Central 1 liquidity deposits	$**126,076**	$141,796	$137,681
Central 1 shares	**13,846**	13,710	13,690
Designated as fair value through profit or loss:			
ABCP LP	**10,740**	9,485	8,305
Money market instruments	**74,882**	64,210	-
Residential mortgages purchased as investments	**-**	-	369
Other	**337**	338	339
	$**225,881**	$229,539	$160,384

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 6% (2010 – 7%) of its total assets adjusted by the 20th day of each month in accordance with the assets as at the previous month-end. 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. 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.

US Dollar investments included in the amounts above are as follows:

(000s)	31 May 2011	31 Dec 2010	1 Jan 2010
Included in money-market instruments			
Book value	**$19,020**	$17,100	Nil
Fair market value	**$19,070**	$17,008	Nil
Included in other			
Book value	**$30**	$30	$30
Fair market value	**$29**	$30	$32

5. LOANS

(000s)	31 May 2011	31 Dec 2010	1 Jan 2010
Personal loans	**$246,661**	$251,677	$267,215
Residential mortgage loans	**917,779**	923,631	885,199
Commercial loans	**712,606**	694,968	652,572
	$1,877,046	$1,870,276	$1,804,986
Less allowance for impaired loans (note 6)	**(2,741)**	(2,513)	(2,857)
	$1,874,305	$1,867,763	$1,802,129

6. ALLOWANCE FOR IMPAIRED LOANS AND IMPAIRED LOANS

a) ALLOWANCE FOR IMPAIRED LOANS:

(000s)				31 May 2011 (5 month period)
	Personal Loans	Commercial Loans	Residential Mortgage Loans	Total
Balance, beginning of period	**($1,679)**	**($830)**	**($4)**	**($2,513)**
Less: Loans written off	**46**	**38**	**283**	**367**
Add: Recoveries on loans previously written off	**79**	**-**	**-**	**79**
Add: Allowance charged to operations	**(186)**	**(201)**	**(287)**	**(674)**
Balance, end of period	**($1,740)**	**($993)**	**($8)**	**($2,741)**
Individual impairment				**($696)**
Collective impairment				**(2,045)**
				($2,741)

(000s)				31 Dec 2010 (12 month period)
Balance, beginning of year	($2,293)	($550)	($14)	($2,857)
Less: Loans written off	1,167	78	18	1,263
Add: Recoveries on loans previously written off	(191)	-	-	(191)
Add: Allowance charged to operations	(362)	(358)	(8)	(728)
Balance, end of year	($1,679)	($830)	($4)	($2,513)
Individual impairment				($585)

Collective impairment	(1,928)
	($2,513)

b) IMPAIRED LOANS:

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

(000s)	**31 May 2011**	31 Dec 2010	1 Jan 2010
Personal loans	$**662**	$541	$1,003
Residential mortgage loans	**650**	701	1,520
Commercial loans	**26**	40	108
	$1,338	$1,282	$2,631

c) LOANS PAST DUE BUT NOT IMPAIRED:

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

(000s)				**31 May 2011**
	1-29 days	**30-89 days**	**90 days and greater**	**Total**
Personal loans	**$9,814**	**$785**	**$-**	**$10,599**
Residential mortgage loans	**18,929**	**1,603**	**1,555**	**22,087**
Commercial loans	**15,325**	**321**		**15,646**
	$44,068	**$2,709**	**$1,555**	**$48,332**

(000s)				31 Dec 2010
	1-29 days	30-89 days	90 days and greater	Total
Personal loans	$8,634	$1,178	$-	$9,812
Residential mortgage loans	25,033	3,774	827	29,634
Commercial loans	1,779	63	-	1,842
	$35,446	$5,015	$827	$41,288

(000s)				1 Jan 2010
	1-29 days	30-89 days	90 days and greater	Total
Personal loans	$10,732	$2,173	$-	$12,905
Residential mortgage loans	28,293	4,364	975	33,632
Commercial loans	24,152	79	-	24,231
	$63,177	$6,616	$975	$70,768

d) COLLATERAL:

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.

	31 May 2011	31 Dec 2010	1 Jan 2010
Loans neither past due nor impaired as a percentage of total loans	**97%**	98%	96%
Amounts of loans restructured during the period that would otherwise have been past due or impaired (000s)	**$7**	$24	$113
Collateral Repossession: Carrying value at balance sheet date of collateral properties possessed during the period (000s)	**$652**	$215	$-

7. INCOME TAXES

a) DEFERRED INCOME TAX:

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

(000s)	**31 May 2011**	31 Dec 2010	1 Jan 2010
Deferred pension liability	**$454**	$301	$456
Derivatives	**643**	374	(140)
Corporate minimum tax	**214**	458	639
Allowance for impaired loans	**119**	273	280
Deferred revenue	**245**	276	22
Property and equipment	**288**	271	(78)
Other	**(81)**	(62)	-
	$1,882	$1,891	$1,179
On Balance Sheet			
Deferred Tax Asset	**2,659**	2,613	2,582
Deferred Tax Liability	**(777)**	(722)	(1,403)
Net Deferred Tax	**$1,882**	$1,891	$1,179

b) INCOME TAX RECONCILIATION:

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

(000s)	**31 May 2011**	
	Amount	**Percent**
Tax at combined federal and provincial rates	**$1,115**	**40%**
Credit union deduction	**(511)**	**(18%)**
Future tax rate differential	**(189)**	**(7%)**
Impact of mark to market legislation	**7**	**0%**
Rate differential (between parent and subsidiary)	**(137)**	**(5%)**
Permanent differences	**16**	**1%**
Other – net	**22**	**1%**
	$323	**12%**

The Ontario Corporate Minimum tax credits carried forward will also expire as follows (in thousands of dollars):

2028	$71
2029	$143
	$214

c) CHANGE IN DEFERRED TAX BALANCES:

The deferred tax related to items charged or credited to equity during the year is as follows:

(000s)	**31 May 2011**	31 Dec 2010
Change in unrealized gains and losses on available for sale securities	**$207**	($197)
Change in gains and losses on derivatives designated as cash flow hedges	**3**	291
Net losses on derivatives designated as cash flow hedges transferred to income	**(2)**	71
	$208	$165

There are no tax related contingent liabilities and contingent assets as of May 31, 2011 in accordance with IAS 37.

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

8. SEGMENT REPORTING

No segment disclosures have been provided. 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, for the purposes of IFRS 8, Operating Segments, it has only one reporting segment for financial reporting purposes.

9. NOTES TO INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

ADJUSTMENTS TO THE INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

The transition from Canadian GAAP to IFRS resulted in certain cash flows related to the Company's securitization activities that were included in investing activities under Canadian GAAP being reflected in operating activities.

a) COMPONENTS OF CASH AND CASH EQUIVALENTS:

(000s)	**31 May 2011**	31 Dec 2010	1 Jan 2010
Cash on hand	**$5,832**	$9,664	$3,358
Deposit with other financial institutions	**25,637**	28,900	46,429
Marketable securities (original maturities less than 90 days)	**55,245**	43,369	116,435
	$86,714	$81,933	$166,222

b) CASH FLOWS PRESENTED ON A NET BASIS:

Cash flows arising from loan advances and repayments, member deposits and withdrawals, and from sales and purchases of investment securities have been presented on a net basis in the interim consolidated statement of cash flows.

10. RELATED PARTY TRANSACTIONS

The aggregate compensation of key management personnel (KMP) for the period comprising amounts paid or payable or provided for was as follows:

(000s)	31 May 2011
Short-term employee benefits	**$1,212**
Post-employment benefits	**-**
Other long-term employee benefits	**-**
Termination benefits	**-**
	$1,212

11. SELECTED DISCLOSURES

a) LOAN MATURITIES:

The following table provides the contractual loan maturity profile for securitized residential mortgages that were not included in the Company's most recent annual financial statements prepared in accordance with Canadian GAAP

(000s)	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total Book Value
Securitized residential mortgages as at May 31, 2011	**-**	**38,096**	**9,452**	**-**	**47,548**
Securitized residential mortgages as at December 31, 2010	-	22,891	30,333	-	53,224
Securitized residential mortgages as at January 1, 2010	-	-	72,888	-	72,888

b) SECURITIZATION LIABILITY MATURITIES:

The following table provides the contractual liability maturity profile for securitization liabilities.

(000s)					**As at May 31, 2011**
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Canada Mortgage Bond liabilities	$ -	$ 38,126	$ 9,452	$ -	$ 47,578
Effective yield	-	1.80%	1.80%	-	1.80%
	$ -	**$ 38,126**	**$ 9,452**	**$ -**	**$ 47,578**

(000s)					As at December 31, 2010
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Canada Mortgage Bond liabilities	$ -	$ 22,891	$ 30,371	$ -	$ 53,262
Effective yield	-	1.81%	1.81%	-	1.81%
	$ -	$ 22,891	$ 30,371	$ -	$ 53,262

(000s)					As at January 1, 2010
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Canada Mortgage Bond liabilities	$ -	$ -	$ 72,881	$ -	$ 72,881
Effective yield	-	-	1.03%	-	1.03%
	$ -	$ -	$ 72,881	$ -	$ 72,881

c) CURRENT AND NON-CURRENT ASSETS AND LIABILITIES:

The following table presents an analysis of each asset liability line item by amounts expected to be recovered or settled within one year or after one year as at May 31, 2011 and December 31, 2010.

(000s)	**As at May 31, 2011**			As at December 31, 2010		
	Within 1 Year	After 1 year	Total	Within 1 Year	After 1 year	Total
Assets						
Cash resources	$ 86,714	$ -	86,714	$ 81,933	$ -	$ 81,933
Held for trading securities	-	10,740	10,740	-	9,485	9,485
Available for sale securities	74,883	140,258	215,141	64,210	155,844	220,054
Residential Mortgages	253,702	616,529	870,231	246,248	624,159	870,407
Securitized Residential Mortgages	-	47,548	47,548	-	53,224	53,224
Commercial Loans and Mortgages	239,889	472,717	712,606	234,197	460,771	694,968
Personal Loans and Lines of Credit	244,540	2,121	246,661	246,278	5,399	251,677
Allowance for Impaired Loans	- 2,741	-	- 2,741	(2,513)	-	(2,513)
Income taxes receivable	359	-	359	-	-	-
Deferred income tax asset	-	2,659	2,659	-	2,613	2,613
Derivative assets	-	7,131	7,131	-	7,300	7,300
Other assets	8,917	-	8,917	9,252	-	9,252
Capital assets	-	10,665	10,665	-	10,898	10,898
Other intangible assets	-	3,541	3,541	-	3,858	3,858
Total assets	**$ 906,263**	**$ 1,313,909**	**$ 2,220,172**	$ 879,605	$ 1,333,551	$ 2,213,156
Liabilities						
Demand Deposits	826,265	-	826,265	$ 845,640	$ -	$ 845,640
Regular Term Deposits	257,912	214,252	472,164	254,883	218,549	473,432
Registered Term Deposits	339,925	364,648	704,573	355,425	322,642	678,067
Borrowings	-	10,000	10,000	-	-	-
Mortgage-backed security liabilities	-	47,578	47,578	-	53,261	53,261
Income tax payable	-	-	-	1,578	-	1,578
Derivative liabilities	-	3,378	3,378	-	3,503	3,503
Other liabilities	27,595	-	27,595	33,216	-	33,216
Deferred tax liabilities	-	777	777	-	722	722
Total Liabilities	**$ 1,451,697**	**$ 640,633**	**$ 2,092,330**	$ 1,490,742	$ 598,677	$ 2,089,419
Net	**$ (545,434)**	**$ 673,276**	**$ 127,842**	$ (611,137)	$ 734,874	$ 123,737

(000s)	As at January 1, 2010		
	Within 1 Year	After 1 year	Total
Assets			
Cash resources	$ 166,222	$ -	$ 166,222
Held for trading securities	-	8,305	8,305
Available for sale securities	-	152,079	152,079
Residential Mortgages	206,150	606,161	812,311
Securitized Residential Mortgages	-	72,888	72,888
Commercial Loans and Mortgages	211,045	441,527	652,572
Personal Loans and Lines of Credit	261,656	5,559	267,215
Allowance for Impaired Loans	(2,857)	-	(2,857)
Income taxes receivable	939		939
Deferred income tax asset	-	2,582	2,582
Derivative assets	-	8,736	8,736
Other assets	6,979	-	6,979
Capital assets	-	9,736	9,736
Other intangible assets	-	5,726	5,726
Total assets	$ 850,134	$ 1,313,299	$ 2,163,433
Liabilities			
Demand Deposits	$ 815,075	$ -	$ 815,075
Regular Term Deposits	252,611	219,670	472,281
Registered Term Deposits	285,212	332,041	617,253
Borrowings	-	30,000	30,000
Mortgage-backed security liabilities	-	72,881	72,881
Income tax payable	-	-	-
Derivative liabilities	-	4,732	4,732
Other liabilities	31,601	-	31,601
Deferred tax liabilities	-	1,403	1,403
Total Liabilities	$ 1,384,499	$ 660,727	$ 2,045,226
Net	$ (534,365)	$ 652,572	$ 118,207

12. EVENTS AFTER THE BALANCE SHEET DATE

There have been no events subsequent to balance sheet date which would have a material effect on the Alterna Savings interim consolidated financial statements as of May 31, 2011.

13. COMPARATIVE AMOUNTS

Certain 2010 comparative amounts have been reclassified to conform to the interim consolidated financial statements presentation adopted in 2011.

SCHEDULE B

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

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, 2009 and 2008, and the consolidated statements of income, comprehensive income, changes in members' equity and cash flows for each of the years 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, 2009 and 2008, and its financial performance and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Ottawa, Canada
July 8, 2011

ALTERNA SAVINGS
Notes to the Consolidated Financial Statements
December 31, 2010

		2010		2009		2008
ASSETS						
Cash and cash equivalents	$	**81,933**	$	166,222	$	59,833
Investments (note 3)		**232,560**		165,393		159,883
Loans, net of allowance for impaired loans (notes 5 and 6)		**1,812,897**		1,727,649		1,708,118
Property and equipment (note 8)		**10,898**		9,736		12,452
Intangible assets (note 9)		**4,058**		5,926		7,720
Derivative financial instruments (note 23)		**7,300**		8,736		17,068
Future income tax asset (note 20)		**121**		-		-
Other assets (note 10)		**17,751**		15,557		15,086
	$	**2,167,518**	$	2,099,219	$	1,980,160
LIABILITIES AND MEMBERS' EQUITY						
Liabilities:						
Deposits (note 11)	$	**1,997,139**	$	1,904,609	$	1,774,887
Borrowings (note 12)		-		30,000		34,700
Future income tax liability (note 20)		-		719		2,628
Derivative financial instruments (note 23)		**3,503**		4,732		5,371
Other liabilities (note 13)		**32,524**		29,016		28,931
Membership shares (note 15)		**1,578**		1,779		1,898
		2,034,744		1,970,855		1,848,415
Members' equity:						
Special shares (note 15)		**23,960**		24,019		24,545
Contributed surplus		**19,282**		19,282		19,282
Retained earnings		**92,525**		89,148		86,459
Accumulated other comprehensive (loss) income		**(2,993)**		(4,085)		1,459
		132,774		128,364		131,745
	$	**2,167,518**	$	2,099,219	$	1,980,160

On behalf of the Board:

Director

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		2008
Interest income (note 16)	**$**	**90,115**	$	88,926	$	90,004
Investment income		**3,211**		3,665		5,498
		93,326		92,591		95,502
Interest expense (note 16)		**34,482**		40,018		46,278
Net interest income		**58,844**		52,573		49,224
Loan costs		**1,313**		1,362		767
		57,531		51,211		48,457
Other income (note 17)		**12,852**		16,690		17,511
		70,383		67,901		65,968
Operating expenses (note 18)		**62,777**		62,485		60,453
Operating income		**7,606**		5,416		5,515
Integration costs		**-**		-		(385)
Unrealized gains and losses on financial instruments		**(1,702)**		(1,476)		7,764
Income before income taxes		**5,904**		3,940		12,894
Provision for (recovery of) income taxes (note 20)						
Current		**2,642**		1,016		741
Future		**(1,164)**		(1,214)		1,528
		1,478		(198)		2,269
Net income	**$**	**4,426**	$	4,138	$	10,625

(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	2008
Net income	**$ 4,426**	$ 4,138	$ 10,625
Other comprehensive (loss) income, net of tax:			
Change in unrealized gains and losses on available-for-sale securities [1]	**(1,312)**	(281)	1,507
Change in gains and losses on derivatives designated as cash flow hedges [2]	**1,935**	(4,488)	(563)
Net losses on derivatives designated as cash flow hedges transferred to net income [3]	**469**	756	-
	1,092	(4,013)	944
Comprehensive income	**$ 5,518**	$ 125	$ 11,569

[1] Net of income tax recovery of $197 (2009 - recovery of $28; 2008 - expense of $193)
[2] Net of income tax expense of $291 (2009 - recovery of $723; 2008 - recovery of $118)
[3] Net of income tax expense of $71 (2009 - expense of $121; 2008 - $nil)

(See accompanying notes to the consolidated financial statements)

ALTERNA SAVINGS
Consolidated Statement of Changes in Members' Equity (in thousands of dollars)
December 31, 2010

		2010		2009		2008
Special shares:						
Balance, beginning of year	**$**	**24,019**	$	24,545	$	26,143
Net shares redeemed (note 15)		**(59)**		(526)		(1,598)
Balance, end of year		**23,960**		24,019		24,545
Contributed surplus:						
Balance, beginning of year		**19,282**		19,282		19,247
Income tax adjustment on integration costs		**-**		-		35
Balance, end of year		**19,282**		19,282		19,282
Retained earnings, net of tax:						
Balance at beginning of year, as previously reported		**89,148**		86,459		76,982
Transitional adjustment on adoption of new accounting policies		**-**		(411)		-
Balance at beginning of year, as restated		**89,148**		86,048		76,982
Net income		**4,426**		4,138		10,625
Dividend on special shares (note 15)		**(1,049)**		(1,035)		(1,098)
Issuance costs		**-**		(3)		(50)
Balance, end of year		**92,525**		89,148		86,459
Accumulated other comprehensive income (loss), net of tax:						
Balance at beginning of year		**(4,085)**		(72)		515
Other comprehensive income (loss)		**1,092**		(4,013)		944
Balance, end of year		**(2,993)**		(4,085)		1,459
Members' equity	**$**	**132,774**	$	128,364	$	131,745

(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	2008
Operating activities:			
Net income	**$ 4,426**	$ 4,138	$ 10,625
Add (deduct) non-cash items:			
Loss on disposal of property and equipment	**-**	63	(1,995)
Loss on disposal of intangible assets	**87**	25	-
Change in fair value of investments	**(1,903)**	(1,731)	2,607
Gains on securitization of mortgages	**-**	(4,170)	(1,075)
Amortization of property and equipment	**2,611**	3,333	3,385
Amortization of intangible assets	**2,091**	2,274	2,233
Net gain on sale of investments	-	(18)	-
Amortization of deferred charges (income)	**(128)**	328	725
Allowance charged to operations	**820**	908	292
Future income taxes	**(1,006)**	(852)	1,278
(Increase) decrease in interest receivable	**(880)**	537	(671)
Change in assets relating to derivative financial instruments	**5,177**	3,356	(2,964)
Decrease in interest payable	**(966)**	(892)	(11)
Change in liabilities relating to derivative financial instruments	**(1,229)**	(519)	(7,596)
Other items, net	**(447)**	(463)	572
Cash provided by operating activities	**8,653**	6,317	7,405
Investing activities:			
Proceeds from maturity and sale of investments	**136,106**	148,231	281,098
Purchase of investments	**(202,878)**	(154,148)	(290,869)
Proceeds from securitization of mortgages	**-**	68,842	39,922
Net increase in loans	**(85,362)**	(84,613)	(217,962)
Proceeds from sale of property and equipment	-	-	3,307
Acquisition of property and equipment	**(1,184)**	(280)	(312)
Acquisition of intangible assets	**(310)**	(505)	(496)
Cash used in investing activities	**(153,628)**	(22,473)	(185,312)
Financing activities:			
Net increase in deposits	**92,530**	129,722	200,225
Net decrease in membership shares	**(201)**	(119)	(632)
Net decrease in special shares	**(59)**	(526)	(1,598)
Net increase in contributed surplus	**-**	-	35
Issuance costs	**-**	(3)	(50)
Dividends on special shares	**(1,049)**	(1,035)	(1,098)
Capital lease repayments	**(535)**	(794)	(643)
Net decrease in borrowings	**(30,000)**	(4,700)	(15,300)
Cash provided by financing activities	**60,686**	122,545	180,939
(Decrease) increase in cash and cash equivalents during the year	**(84,289)**	106,389	3,032
Cash and cash equivalents, beginning of year	**166,222**	59,833	56,801
Cash and cash equivalents, end of year	**$ 81,933**	$ 166,222	$ 59,833
Supplemental information:			
Interest paid	**$ 35,448**	$ 40,910	$ 46,288
Income taxes paid	**$ 568**	$ 2,246	$ 225
Property and equipment acquired through capital leases	**$ 2,589**	$ 400	$ 401

(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)	2008 (000's)
Central 1 liquidity deposits	**$141,796**	$137,681	$122,166
Money market instruments	**64,210**	-	-
Central 1 shares	**13,710**	13,690	14,690
ABCP LP (note 4)	**9,485**	8,305	8,986
Retained interests (note 7)	**3,021**	5,009	845
Residential mortgages purchased as investments	**-**	369	7,747
Other	**338**	339	5,449
	$232,560	$165,393	$159.883

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%; 2008 - 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; 2008 - $nil) with a carrying value of $17,008,000 (2009 - $nil; 2008 - $nil) and included in other are US dollar investments of US$30,000 (2009 - US$30,000; 2008 – US$30,000) with a carrying value of $30,000 (2009 - $32,000; 2008 - $37,000).

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; 2008 - decrease of $2,607,000) 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; 2008 - $nil) 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)	2008 (000's)
Personal loans	**$251,677**	$267,216	$265,127
Residential mortgage loans	**869,841**	811,703	842,388
Commercial loans	**694,968**	652,571	604,479
	1,816,486	1,731,490	1,711,994
Less allowance for impaired loans (note 6)	**(3,589)**	(3,841)	(3,876)
	$1,812,897	$1,727,649	$1,708,118

During the year, Alterna Savings securitized residential mortgage loans amounting to $nil (2009 - $68,526,000; 2008 - $11,742,000), generating net gains on sale of $nil (2009 - $4,170,000; 2008 - $764,000). 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)	2008 (000's)
	Personal Loans	**Residential Mortgage Loans**	**Commercial Loans**	**Total**	Total	Total
Balance, beginning of year	**$999**	**$277**	**$2,565**	**$3,841**	$3,876	$4,446
Less: Loans written off	**(1,167)**	**(18)**	**(78)**	**(1,263)**	(1,185)	(1,211)
Add: Recoveries on loans previously written off	**191**	**-**	**-**	**191**	242	349
Add: Allowance charged to operations	**566**	**26**	**228**	**820**	908	292
Balance, end of year	**$589**	**$285**	**$2,715**	**$3,589**	$3,841	$3,876

The allowance for impaired loans includes a general allowance of $2,677,000 (2009 - $2,458,000; 2008 - $2,521,000) pertaining to commercial loans, $280,000 (2009 - $277,000; 2008 - $285,000) pertaining to residential mortgage loans and $47,000 (2009 - $45,000; 2008 - $38,000) 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)	2008 (000's)
Personal loans	**$541**	$1,003	$934
Residential mortgage loans	**701**	1,636	222
Commercial loans	**40**	108	93
	$1,282	$2,747	$1,249

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)	2008 (000's)
	1-29 days	**30-89 days**	**90 days and greater**	**Total**	Total	Total
Personal loans	**$8,634**	**$1,178**	**$-**	**$9,812**	$12,905	$12,757
Residential mortgage loans	**25,033**	**3,774**	**827**	**29,634**	33,632	33,325
Commercial loans	**1,779**	**63**	**-**	**1,842**	24,231	12,706
	$35,446	**$5,015**	**$827**	**$41,288**	$70,768	$58,788

As of December 31, 2010, 98% of the loans were neither past due nor impaired (2009 - 96%; 2008 - 97%). During the year, $24,000 (2009 - $113,000; 2008 - $59,000) 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)	2008 (000’s)
Amount securitized/sold	**$-**	$68,526	$11,742
Proceeds from sale	-	68,842	11,831
Retained interests	-	5,582	929
Gains on sale, net of transaction costs	-	4,170	764
Servicing liabilities	-	467	80
Cash flows received on retained interests	**2,217**	1,467	-
Outstanding balances of securitized loans at December 31	**53,261**	72,881	11,725

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 (%)	2008 (%)
Weighted-average remaining life (in years)	**3.13**	4.07	4.75
Prepayment rate	**11.24**	11.93	15.00
Excess spread	**2.06**	2.15	2.61
Discount rate	**2.90**	3.21	3.32

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)	2008 (000's)
Carrying value of retained interests	**$3,021**	$5,009	$845
Prepayment rate assumption			
Impact of a 10% adverse change	**(51)**	(115)	(29)
Impact of a 20% adverse change	**(100)**	(226)	(55)
Residual cash flow discount rate (annual rate)			
Impact of a 10% adverse change	**(11)**	(24)	(4)
Impact of a 20% adverse change	**(21)**	(48)	(9)

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)			2008 (000's)
	Cost	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	**$3,317**	**$-**	**$3,317**	$3,317	$-	$3,317	$3,517	$-	$3,517
Buildings	**9,070**	**8,754**	**316**	9,043	8,385	658	9,126	7,980	1,146
Furniture and equipment	**9,131**	**4,919**	**4,212**	7,968	5,976	1,992	7,890	4,920	2,970
Computer hardware	**4,436**	**3,552**	**884**	4,506	3,407	1,099	4,059	2,807	1,252
Leasehold improvements	**8,889**	**6,720**	**2,169**	8,760	6,090	2,670	8,814	5,247	3,567
	$34,843	**$23,945**	**$10,898**	$33,594	$23,858	$9,736	$33,406	$20,954	$12,452

Assets under capital leases totalling $5,823,000 (2009 - $5,375,000; 2008 - $4,980,000) 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; 2008 - $725,000 and $3,945,000, 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; 2008 - $3,385,000) 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)			2008 (000's)		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**	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	$15,275	$7,755	$7,520
Other	**200**	**-**	**200**	200	-	200	200	-	200
	$15,956	**$11,898**	**$4,058**	$15,906	$9,980	$5,926	$15,475	$7,755	$7,720

The aggregate amount of intangible assets acquired during the year was $310,000 (2009 - $505,000; 2008 - $496,000). Total amortization charged to income in 2010 was $2,091,000 (2009 - $2,274,000; 2008 - $2,233,000) 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)	2008 (000's)
Accrued employee benefit plan asset (note 19)	**$8,762**	$7,722	$7,433
Accrued interest receivable	**4,827**	3,947	4,484
Income tax receivable	**-**	939	-
Other	**4,162**	2,949	3,169
	$17,751	$15,557	$15,086

11. DEPOSITS

	2010 (000's)	2009 (000's)	2008 (000's)
Demand deposits	**$845,641**	$800,004	$747,398
Term deposits	**473,054**	461,084	428,112
Registered plans	**678,444**	643,521	599,377
	$1,997,139	$1,904,609	$1,774,887

As at December 31, 2010, Alterna Savings held US dollar deposits from clients of US$20,916,000 (2009 - US$15,210,000; 2008 – US$11,093,000) with a carrying amount of $20,803,000 (2009 - $15,985,000; 2008 - $13,511,000).

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; 2008 - 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; 2008 - $34,700,000). 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)	2008 (000's)
Loans, net of allowance for impaired loans	**$1,660,171**	$1,576,008	$1,554,857
Property and equipment	**10,707**	9,475	12,106
Intangible assets	**3,858**	5,726	7,520
Other assets	**17,759**	16,124	16,949
	$1,692,495	$1,607,333	$1,591,432

13. OTHER LIABILITIES

	2010 (000's)	2009 (000's)	2008 (000's)
Accrued interest payable	**$13,393**	$14,359	$15,251
Trade payables and accrued expenses	**10,023**	10,020	7,734
Capital lease obligations (note 14)	**2,771**	717	1,111
Income taxes payable	**1,579**	-	549
Deferred revenue	**1,518**	755	929
Certified cheques	**1,399**	1,215	989
Salaries and benefits payable	**1,031**	973	1,767
Dividend payable	**533**	526	522
Servicing liabilities	**277**	451	79
	$32,524	$29,016	$28,931

14. CAPITAL LEASE OBLIGATIONS

	2010 (000's)	2009 (000's)	2008 (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	$1,111

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, 2007	14,064	13,801	9,302	9,302	3,040	3,040	2,530	2,530
Net shares redeemed	(1,398)	(1,348)	(32)	(32)	(218)	(218)	(632)	(632)
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; 2008 - $793,000) 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; 2008 - $522,000); 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; 2008 - $nil). These dividends are presented in members' equity net of income taxes of $201,000 (2009 - $231,000; 2008 - $217,000) in the consolidated financial statements, for a balance of $1,049,000 (2009 - $1,035,000; 2008 - $1,098,000).

16. INTEREST INCOME AND INTEREST EXPENSE

	2010 (000's)	2009 (000's)	2008 (000's)
Interest Income:			
Personal loans	**$10,136**	$9,976	$16,473
Residential mortgage loans	**37,043**	38,998	43,174
Commercial loans	**37,879**	34,196	28,558
Swap agreements	**5,057**	5,756	1,799
	$90,115	$88,926	$90,004
Interest Expense:			
Demand deposits	**$3,959**	$4,661	$8,364
Term deposits	**11,129**	14,435	15,068
Registered plans	**19,096**	20,693	21,324
Borrowings	**298**	229	1,522
	$34,482	$40,018	$46,278

17. OTHER INCOME

	2010 (000's)	2009 (000's)	2008 (000's)
Service charges	**$5,951**	$6,134	$6,462
Commissions	**4,992**	4,161	4,373
ABM network fees	**1,284**	1,385	1,461
Gains on securitization of mortgages	**-**	4,170	1,075
Gain on sale of property	**-**	-	2,024
Other	**625**	840	2,116
	$12,852	$16,690	$17,511

18. OPERATING EXPENSES

	2010 (000's)	2009 (000's)	2008 (000's)
Salaries and benefits	**$32,847**	$33,197	$30,780
Administration	**14,927**	14,435	14,377
Occupancy	**6,464**	6,656	6,673
Data processing	**4,714**	5,029	5,097
Marketing and community relations	**1,997**	1,431	1,776
Deposit insurance premiums	**1,828**	1,737	1,750
	$62,777	$62,485	$60,453

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)	2008 (000's)
	Pension	**Benefits**	**Total**	Total	Total
Accrued benefit obligation:					
Balance, beginning of year	**$19,615**	**$415**	**$20,030**	$17,918	$23,461
Current service cost	**-**	**11**	**11**	10	10
Interest cost	**1,226**	**20**	**1,246**	1,291	1,237
Employee contributions	**-**	**-**	**-**	-	18
Benefits paid	**(1,284)**	**(23)**	**(1,307)**	(1,453)	(1,980)
Actuarial losses (gains)	**2,380**	**(239)**	**2,141**	2,264	(4,828)
Balance, end of year	**$21,937**	**$184**	**$22,121**	$20,030	$17,918
Plans' assets:					
Fair value, beginning of year	**$23,883**	**$-**	**$23,883**	$23,062	$28,260
Actual return on plan assets	**1,831**	**-**	**1,831**	2,233	(3,328)
Employer contributions	**652**	**23**	**675**	41	92
Employee contributions	**-**	**-**	**-**	-	18
Benefits paid	**(1,284)**	**(23)**	**(1,307)**	(1,453)	(1,980)
Fair value, end of year	**$25,082**	**$-**	**$25,082**	$23,883	$23,062
Overfunded (underfunded) status of plans	**$3,145**	**($184)**	**$2,961**	$3,853	$5,144
Unamortized net actuarial losses (gains)	**6,164**	**(241)**	**5,923**	4,110	2,640
Unamortized transitional gains	**(122)**	-	**(122)**	(241)	(351)
Accrued benefit asset (liability)	**$9,187**	**($425)**	**$8,762**	$7,722	$7,433

As at December 31, 2010, the over funded status of the DB pension plan was $2,150,000 (2009 - $3,056,000; 2008 - $4,063,000) and the over funded status of the SRIP was $995,000 (2009 - $1,212,000; 2008 - $1,471,000).

The accrued benefit asset of $8,762,000 (2009 - $7,722,000; 2008 - $7,433,000) 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		2008	
	Pension	**Benefits**	Pension	Benefits	Pension	Benefits
Discount rate for accrued benefit obligation	**5.56%**	**3.60%**	6.44%	4.75%	7.50%	7.50%
Discount rate for pension expense	**6.45%**	**4.75%**	7.50%	7.50%	5.50%	5.50%
Rate of compensation increase	**n/a**	**n/a**	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	6.63%	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)	2008 (000's)
Current service cost	**$11**	$10	$10
Interest cost	**1,246**	1,291	1,237
Expected return on plan assets	**(1,622)**	(1,480)	(1,837)
Amortization of transitional gains	**(110)**	(110)	(110)
Amortization of net actuarial losses and other	**112**	40	1
	($363)	($249)	($699)

The actual return on plan assets was $208,000 higher (2009 - $753,000 higher; 2008 - $5,165,000 lower) 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; 2008 - $873,000).

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; 2008 - $965,000).

20. INCOME TAXES

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

	2010 (000's)	2009 (000's)	2008 (000's)
Deferred pension expense	**($1,145)**	($1,066)	($1,226)
Derivatives	**(131)**	(661)	(1,840)
Corporate minimum tax	**458**	639	753
Allowance for impaired loans	**453**	453	524
Deferred revenue	**276**	-	-
Property and equipment	**245**	(106)	(737)
Accumulated other comprehensive income	**-**	-	(289)
Loss carryforward	**-**	-	165
Other	**(35)**	22	22
	$121	($719)	($2,628)

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

		2010		2009		2008
	Amount (000's)	**Percent**	Amount (000's)	Percent	Amount (000's)	Percent
Tax at combined federal and provincial rates	**$2,421**	**41%**	$1,655	42%	$5,414	42%
Credit union deduction	**(2,780)**	**(47%)**	(899)	(23%)	(3,064)	(24%)
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%)	5	-%
Permanent differences	**38**	**1%**	19	-%	139	1%
Provincial small business incentives	**-**	**-%**	-	-%	(12)	(1%)
Non-taxable portion of gain	**-**	**-%**	-	-%	(190)	(1%)
Other – net	**165**	**3%**	152	4%	(23)	-%
	$1,478	**25%**	($198)	(5%)	$2,269	17%

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)		2008 (000's)
	Carrying value	**Fair value**	Carrying value	Fair value	Carrying value	Fair value
Available-for-sale:						
Cash and cash equivalents	**$81,933**	**$81,933**	$166,222	$166,222	$59,833	$59,833
Investments	**220,386**	**220,386**	152,774	152,774	150,897	150,897
Designated as held-for-trading:						
Investments	**12,174**	**12,174**	12,619	12,619	8,986	8,986
Classified as held-for-trading:						
Derivative financial instruments						
- swaps	**3,598**	**3,598**	6,458	6,458	11,806	11,806
- purchased options	**2,727**	**2,727**	2,278	2,278	5,262	5,262
- equity options	**975**	**975**	-	-		
Loans and receivables:						
Loans						
- personal loans	**251,677**	**252,228**	267,216	268,110	265,127	266,328
- residential mortgage loans	**869,841**	**901,278**	811,703	867,160	842,388	918,983
- commercial loans	**694,968**	**729,755**	652,571	702,970	604,479	672,383
TOTAL ASSETS	**$2,138,279**	**$2,205,054**	$2,071,841	$2,178,591	$1,948,778	$2,094,478
Other liabilities:						
Deposits						
- demand deposits	**$845,641**	**$845,641**	$800,004	$800,004	$747,398	$747,398
- term deposits	**473,054**	**475,910**	461,084	468,107	428,112	441,815
- registered plans	**678,444**	**685,213**	643,521	654,607	599,377	622,298
Borrowings	-	-	30,000	30,000	34,700	34,700
Classified as held-for-trading:						
Derivative financial instruments						
- swaps	**803**	**803**	2,499	2,499	109	109
- embedded options	**2,700**	**2,700**	2,233	2,233	5,262	5,262
TOTAL LIABILITIES	**$2,000,642**	**$2,010,267**	$1,939,341	$1,957,450	$1,814,958	1,851,582

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 (as per *Amendments to Section 3862 Financial Instruments – Disclosures* effective September 30, 2009)

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%; 2008 - 37%) 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; 2008 - $1,393,428,000).

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%; 2008 – 0.46%) and 2.99% (2009 – 2.45%; 2008 - 2.28%), 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)	2008 (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	Total
Cash and cash equivalents	**$38,564**	**$-**	**$43,369**	**$-**	**$-**	**$-**	**$81,933**	$166,222	$59,833
Interest Rates	**-**	**-**	**1.04%**	**-%**	**-%**	**-%**	**0.55%**	0.16%	0.78%
Investments	**$26,553**	**$-**	**$63,902**	**$42,160**	**$99,945**	**$-**	**$232,560**	$165,393	$159,883
Interest Rates	**-%**	**-%**	**1.24%**	**1.58%**	**2.41%**	**-%**	**1.66%**	0.99%	2.46%
Personal loans	**$-**	**$243,956**	**$600**	**$1,104**	**$5,428**	**$-**	**$251,088**	$266,217	$264,154
Interest Rates	**-%**	**4.19%**	**5.80%**	**8.36%**	**6.87%**	**-%**	**4.27%**	3.44%	4.79%
Residential mortgage loans	**$-**	**$131,954**	**$5,841**	**$43,472**	**$688,220**	**$69**	**$869,556**	$811,426	$842,099
Interest Rates	**-%**	**2.95%**	**4.56%**	**4.93%**	**4.43%**	**5.78%**	**4.23%**	4.42%	4.93%
Commercial loans	**$-**	**$135,574**	**$24,820**	**$73,636**	**$407,765**	**$50,458**	**$692,253**	$650,006	$601,865
Interest Rates	**-%**	**4.93%**	**5.41%**	**5.35%**	**5.45%**	**5.47%**	**5.34%**	5.38%	5.61%
Other:	**$32,828**	**$7,300**	**$-**	**$-**	**$-**	**$-**	**$40,128**	$39,955	$52,217
TOTAL ASSETS	**$97,945**	**$518,784**	**$138,532**	**$160,372**	**$1,201,358**	**$50,527**	**$2,167,518**	$2,099,219	$1,980,051
Deposits	**$-**	**$937,737**	**$173,379**	**$395,765**	**$490,258**	**$-**	**$1,997,139**	$1,904,609	$1,774,887
Interest Rates	**-%**	**0.61%**	**2.75%**	**2.19%**	**2.81%**	**-%**	**1.65%**	1.80%	2.49%
Borrowings	**$-**	**$-**	**$-**	**$-**	**$-**	**$-**	**$-**	$30,000	$34,700
Interest Rates	**-%**	**-%**	**-%**	**-%**	**-%**	**-%**	**-%**	0.80%	2.32%
Other	**$34,102**	**$3,503**	**$-**	**$-**	**$-**	**$-**	**$37,605**	$36,246	$38,719
Members' equity	**$132,774**	**$-**	**$-**	**$-**	**$-**	**$-**	**$132,774**	$128,364	$131,745
TOTAL LIABILITIES AND MEMBERS' EQUITY	**$166,876**	**$941,240**	**$173,379**	**$395,765**	**$490,258**	**$-**	**$2,167,518**	$2,099,219	$1,980,051
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%; 2008 - 8%) 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%; 2008 - 9.38%). 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)	2008 (000's)
	Less than 1 year	**1 to 5 years**	**Over 5 years**	**No specified maturity**	**Total**	Total	Total
Deposits	**$569,144**	**$490,258**	**$-**	**$937,737**	**$1,997,139**	$1,904,609	$1,774,887
Borrowings	**-**	**-**	**-**	**-**	**-**	30,000	34,700
	$569,144	**$490,258**	**$-**	**$937,737**	**$1,997,139**	$1,934,609	$1,809,587

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		2008
	Carrying Value (000's)		Carrying Value (000's)		Carrying Value (000's)	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
Designated accounting hedges	**$-**	**$757**	$2,820	$2,499	$-	$-
Economic hedges	**6,325**	**2,746**	5,916	2,233	17,068	5,371
Equity options	**975**	**-**	-	-	-	-
	$7,300	**$3,503**	$8,736	$4,732	$17,068	$5,371

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				2008
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	Fair Value (000's)	Notional Principal (000's)	Fixed Rate	Year End Floating Rate
2009									$293	$50,000	3.97%	1.70%
2009									611	50,000	4.00%	1.63%
2011	**$1,129**	**$65,000**	**4.80%**	**1.20%**	$3,544	$65,000	4.80%	0.40%	5,971	65,000	4.80%	1.64%
2013	**2,445**	**50,000**	**3.73%**	**1.19%**	2,821	50,000	3.73%	0.40%	4,931	50,000	3.73%	1.97%
2013	**24**	**8,146**	**1.60%**	**1.20%**	93	10,005	1.60%	0.40%	(109)	11,742	1.60%	1.64%
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%	11,697	226,742	4.04%	1.73%

	2010	2009	2008
	Total fair value	Total fair value	Total fair value
Interest rate swaps (assets)	**$3,598**	$6,458	$11,806
Interest rate swaps (liabilities)	**(803)**	(2,499)	(109)
	$2,795	$3,959	$11,697

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; 2008 - none).

b) Call Options

	Residual Term to Maturity			**2010**		2009		2008	
	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)	Total Notional Principal (000's)	Fair Value (000's)
Purchased options (asset)	**$11,837**	**$14,487**	**$-**	**$26,324**	**$2,727**	$20,643	$2,278	$31,143	$5,262
Embedded options (liabilities)	**$11,837**	**$14,487**	**$-**	**$26,324**	**$2,700**	$20,643	$2,233	$31,143	$5,262

Alterna Savings has issued $26,324,000 of indexed term deposits to its members as of December 31, 2010 (2009 - $20,643,000; 2008 - $31,143,000). 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; 2008 - $nil) 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%; 2008 - 6.47%) and the total capital as a percent of risk weighted assets of 9.78% (2009 – 10.27%; 2008 - 10.65%). 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)	2008 (000's)
Retained earnings	**$92,475**	$89,188	$86,459
Special shares	**23,960**	24,019	24,545
Contributed surplus	**19,282**	19,282	19,282
Membership shares	**1,578**	1,779	1,898
General provisions	**2,623**	2,400	2,460
	$139,918	$136,668	$134,644

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; 2008 - $2,133,000). There was approximately $125,000 (2009 - $39,000; 2008 - $83,000) 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; 2008 - $224,000) and other expenses incurred totalled $125,000 (2009 - $88,000; 2008 - $71,000). As at December 31, 2010, Alterna Savings' Board consisted of 15 Directors (2009 – 15 Directors; 2008 - 15 Directors) and Alterna Bank's Board consisted of 9 Directors (2009 – 9 Directors; 2008 - 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 and 2008 comparative amounts have been reclassified to conform to the consolidated financial statement presentation adopted in 2010.