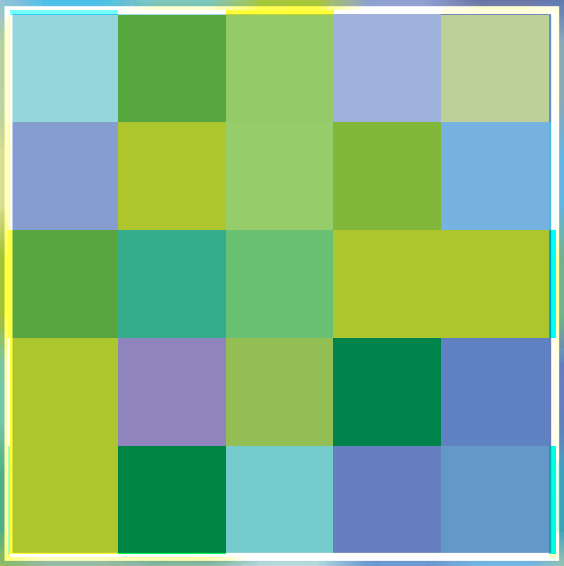
GAINING CLARITY

LEAGUE SAVINGS AND MORTGAGE COMPANY ANNUAL REPORT 2015



LEAGUE SAVINGS AND MORTGAGE
A Credit Union Company

Clarity of vision

Our 10-year vision for the Atlantic credit union system has become more clearly defined – transforming from a concept into something more real and tangible. The momentum we have gained with our combined accomplishments since 2012's Role and Relationship Report have led us to where we are today – with the opportunities before us to affect the kind of transformational system change required to ensure the Atlantic credit union system thrives. We have taken significant steps over the past year to provide solutions that will allow our system to evolve in a way that not only stays true to our co-operative roots, but also will enable us to grow our businesses and become strong competitors in the marketplace. We have the opportunity to move from vision to reality, to undergo a transformation that will benefit our entire system and, most importantly, our members. The Atlantic credit union system has a long and proud history. We will continue to work together to ensure we have a strong and enduring future.

"The best way to succeed is to have a specific **INTENT**, a clear **VISION**, a plan of **ACTION**, and the ability to maintain **CLARITY**."

– Dr. Steve Maraboli

CONTENTS

Our Vision

League Savings and Mortgage Company supports credit unions in being the preferred provider of financial solutions.

Our Mission

To strengthen credit union capacity for success.

Our Values

Leadership

We will provide leadership to the credit union system.

Stewardship

We accept the roles of support and leadership defined for us by the credit unions and, with them, support the well-being of the credit union system and the communities it serves. We will operate in a socially responsible and profitable manner for the common good of our stakeholders.

Service

We are committed to providing professional service to our stakeholders, who include credit unions and their employees, our affiliates and their employees, and to each other.

Respect

We will conduct ourselves respectfully – respectful of diversity, respectful of ourselves and respectful of others in order to build and sustain a productive workplace.

Accountability

We choose to be accountable for our actions and the results we deliver to our stakeholders. We share responsibility for the well-being and success of League Savings and Mortgage Company and the credit unions it serves.

Continuous Growth and Development

We commit to continually strengthening our organization and services. We will initiate learning and improve personally, departmentally and corporately.

MESSAGE *from Ray*

Gaining clariy. That is an appropriate phrase to describe 2015 and the work that was done to continue the evolution of League Savings and Mortgage Company (League Savings). We remain a committed and trusted partner for credit unions, and, as we more clearly define a new direction, the ultimate outcome is that we evolve to better meet the needs and expectations of credit unions and their members. In 2014, the Board provided direction to Management to investigate new opportunities for League Savings to re-evaluate and evolve the company's business model. In 2015, we continued to identify and evaluate our options.

We marked the successful implementation of year two of League Savings' and Atlantic Central's joint three-year strategic plan. As our companies continued to align their strategies and goals, discussions around a single slate of directors to sit on both Boards progressed in 2015. We understand the need for strong leadership at the Board level and discussed governance requirements and explored changes in Board composition; we also implemented new competencies for becoming a director using the Office of the Superintendent of Financial Institution's (OSFI's) best practices as a guideline. We expect discussions around this issue will continue in 2016.

As anticipated, financial margin is down significantly from 2014, but, as a result of successful efforts to generate new sources of income and new sources of funding, operating income was $82,580 higher than the previous year. There was a significant increase in mortgage pool activity, with $24 million in on-balance sheet mortgages securitized in the year, and a further $75 million in off-balance sheet activities. These off-balance sheet transactions generated $752,000 in gains – a $602,000 increase over gains reported in 2014 – and include gains of $526,000 on two pools of multi-residential mortgages totalling $66 million purchased in 2015 to be sold into the Canada Mortgage Bond program.

A significant undertaking this year was the restructure of League Savings' capital, important to both improving the quality and quantity of our regulatory capital, and in the evolution of our business model. This work began in 2014 and continued throughout 2015. A special electronic meeting of League Savings' and Atlantic Central shareholders, a first, was held in September, and credit unions approved the necessary changes to the bylaws, thereby allowing the capital restructure process to proceed. This is expected to be completed in early 2016.

In September, a joint planning session was held with the Boards of League Savings, Atlantic Central, and League Data – the first time in history the three organizations have done this. We are committed to working more closely together for the benefit of the Atlantic credit union system and this was a significant step in demonstrating that. During the planning session, the results of the Linked Hub Business Case and the Compelling Selling Proposition project were presented, and I'm happy to report the Board of League Savings unanimously supported the recommended direction arising from the outcomes of both projects. The Board firmly believes these are the right approaches and critical steps in ensuring the future success of the Atlantic credit union system. As a demonstration of our commitment, I stood with the Chairs of the Boards of Atlantic Central and League Data at the fall conference in October and voiced the Board's full endorsement of the recommended direction.

As we worked toward a new direction for the company in 2015, League Savings continued to explore opportunities to optimize our existing operations. The Board is pleased with the results as the company finished well ahead of budget.

At the Board's meeting in December, I accepted the resignation of one of our Directors, Dan Honnor. I want to take this opportunity on behalf of the Board to thank Dan for his nine years of service to League Savings. This vacant seat will be filled in April 2016.

On behalf of the Board, I would like to thank the Management and staff of League Savings for their hard work and continued commitment to serving credit unions in 2015. The accomplishments over the past year have been a testament to the leadership and dedication required to move our organization successfully into the future. We will continue to develop a new direction for League Savings in 2016 and further refine the opportunities we identified over the past year. We remain committed to the success of credit unions and look forward to continuing to serve them and meeting their business needs now and into the future.

Raymond Surette
Chair
League Savings and Mortgage Company
Board of Directors

2015 DEFINED *by Mike*

As consumer expectations of financial institutions keep evolving, so does our industry. Every day we hear how our competitors are investing in and building their suite of products and services to meet the shifting demands of consumers, and it can be difficult to comprehend the magnitude and speed of that change around us. One thing that is clear to me is the companies that serve credit unions across Canada need to evolve to support you better. As you grow both in size and sophistication, you are doing more and more of the work that was previously done by credit union-owned companies like League Savings and Mortgage Company (League Savings). As you change, so too must we.

League Savings has a long and successful history in the Atlantic credit union system and has established significant relationships over the years. In addition, League Savings has always been strong from a financial perspective. These two key factors provide us the necessary time to consider how the company should evolve to help you grow your business. In keeping with our commitment to collaborate whenever possible, this work began in 2014 with discussions with you to determine your needs and potential new business opportunities for League Savings. Over the past two years, we have continued the discussions and explored opportunities for League Savings both regionally and nationally. I believe the national landscape of credit union-owned companies will undergo fundamental changes in the coming years and we want League Savings to be both a leader and a participant in that evolution.

While we remain focused on new directions to support and help you serve your members better, we also continue to optimize our current business model. Significant changes have taken place over the past two years at League Savings, and 2015 saw further changes in how we manage our balance sheet, substantially improving our profitability. Significant work was completed in partnership with Concentra Financial on our securitization program in 2015. Securitization offers you access to low-cost funding for mortgages, helping us compete in a very competitive market. This program also gives us tremendous insight into the value that League Savings can bring to the regional system as we continue to evolve the company to meet your changing needs. We also participated in our first Canada Mortgage Bond (CMB) transaction, opening new opportunities for the company to improve its profitability.

As we worked to optimize our balance sheet, we recognized that changes in our capital structure were also necessary. Once again the process was designed to engage you and updates were provided at our annual general meeting and fall conference, along with webinars and our first-ever electronic membership meeting. You signaled strong support for the company in approving the share restructure and I want to thank you for your confidence. These changes will strengthen League Savings and better prepare us for our next evolution.

The work we have done over the past two years resulted in a successful year for the company financially, and we were very pleased to pay market competitive referral fees and

dividends to you. While I know we are just two years removed from when the company paid portfolio fees, League Savings undeniably operates in a very challenging market supporting credit unions in their most competitive situations. From our perspective, we have channeled those returns back to the members in the interests of building and saving member relationships.

A key piece of our strategy for the future involves leveraging partnerships and sharing strategies. League Savings has long benefited from its relationship with Atlantic Central, sharing resources that have led to improved efficiencies; and sharing strategies, which puts more resources behind system initiatives. As we move the company forward, new strategic partnerships are emerging that will drive increased value for you. Concentra Financial provided significant value to League Savings as we dove deeper into securitization programs in 2015. The partnership has been a long and beneficial one that we see continuing to strengthen as we share a similar vision for the regional and national system.

Change is challenging, and I want to take a moment to thank our Board of Directors. A lot is asked of them, and as our business becomes more complex, their oversight role becomes more multifaceted. I appreciate their guidance and support.

On a similar note, I want to thank the entire team at League Savings. I know the past two years have been full of significant change and they have stepped up and met the challenge. It is an honour to be part of their team.

Finally to you, our shareholders, thank you for your continued support of League Savings. For the past 49 years, we have been committed to your success. In 2016, League Savings turns 50, and we look forward to another 50 years of helping you build and grow your business in your local communities.

Michael Leonard
President and CEO
League Savings and Mortgage Company

"The secret to change is to focus all your energy, not on fighting the old, but on building the new."

– Dan Millman

OUR MANAGEMENT TEAM

"It was exciting to hold our first ever electronic general meeting in September and to have credit unions overwhelmingly approve bylaw changes that will allow League Savings to optimize its capital structure."

Sharon Arnold
Senior Vice-President,
Finance and Chief Risk Officer

"I believe the national landscape of credit union-owned companies will undergo fundamental changes in the coming years and we want League Savings to be both a leader and a participant in that evolution."

Michael Leonard, President and Chief Executive Officer

"Developing the Linked Hub Business Case was a major undertaking driven by an excellent team from AC/LSM partnering with world class experts from EY. Their work gave Boards the information they needed to make the best decision for their credit union."

Joseph Malek, Vice-President, Strategic Change

"The work to develop new directions for League Savings has resulted in strengthened partnerships and exciting opportunities for the future of the company. Recent efforts to restructure our balance sheet have significantly improved our bottom line."

Kim Walker, Vice-President, Treasury and Credit Services

"The Liaison Working Group and Business Solutions team are doing an awesome job providing credit unions with competitive new products and services. The incredible teamwork is a key to our success!"

Paul Paruch, Vice-President, Marketing and Business Solutions

MANAGEMENT DISCUSSION AND ANALYSIS

RISK MANAGEMENT

Risk management is one of the most important responsibilities of League Savings and Mortgage Company (League Savings). League Savings' risk management strategies and policies are governed by the principle of optimizing risk for the protection and creation of shareholder value, and are designed to ensure that the company's risk-taking is consistent with its business objectives and risk tolerance. Optimizing risk means striking a balance between risk and reward, ensuring that League Savings' risk-taking is consistent with its Risk Appetite Framework. The Risk Appetite Framework reflects the aggregate level and type of risks that the company is willing to accept in order to achieve its business objectives.

League Savings' Risk Appetite Framework is based on the following fundamental principles:

- Board policies establish the basis for acceptable risk-taking
- All corporate risk-taking must align with our business strategy, values, and code of ethics
- When engaging in risk-taking activities we must:
  - ensure risks are understood and managed
  - protect the reputation of the credit union system
  - not expose the company to a single loss or reputational event that could threaten the company's viability

League Savings uses an enterprise-wide approach to identify, measure, monitor, and manage organizational risk. Authority for all risk-taking activities rests with the Board of Directors, which approves the Risk Appetite Statement and risk management policies, delegates limits, and regularly reviews Management's risk assessments and compliance with approved policies. The Risk Committee of the Board of Directors is responsible for ensuring that Management has developed and maintained an effective Enterprise Risk Management Framework for evaluating the business strategies being used for allocation of human, capital, and other resources.

The Chief Risk Officer is responsible for the oversight of risk management across the organization and reports quarterly to the Risk Committee of the Board. The Management Finance Committee (MFC) is responsible for the review and evaluation of financial risks and performance. The MFC reviews financial risk management policies, recommends changes to policies and procedures as appropriate, and monitors compliance with financial policies. The Asset Liability Management Committee (ALCO) is responsible for ensuring the effective and prudent management of League Savings' financial assets and liabilities. ALCO achieves this by developing and implementing financial strategies and related processes consistent with the short- and long-term goals set by the Board of Directors.

Qualified professionals throughout the company manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes. The various processes within League Savings' risk management framework are designed to ensure that risks in the various business activities are properly identified, measured, assessed, and controlled. Risk management practices include ongoing consideration of external influences and emerging risks, including current and forecasted economic and market conditions. Stress testing is also an important tool used by Management in making business and risk management decisions.

Internal Audit reports independently to the Audit Committee of the Board of Directors on the effectiveness of the risk management policies and the extent to which internal controls are in place and operating effectively.

Risks are summarized into the following categories: capital adequacy, governance, credit, legal and regulatory, liquidity, market, operational, and strategic. Credit, liquidity, and market risks are described in the notes to the 2015 annual financial statements. A description of the remaining risks follows:

Capital Adequacy Risk

Capital adequacy risk is the risk of financial loss or regulatory intervention due to the failure of League Savings to raise the necessary capital to support its business plans.

League Savings has established capital management policies, which govern the quantity and quality of capital that the company will maintain. An Internal Capital Adequacy Assessment Process (ICAAP) has been implemented that establishes capital targets and strategies for achieving those targets based on the company's business plans and risk assessment, which incorporates stress testing. A capital plan is prepared annually that forecasts the amount of capital required for the next three years and the sources that will be used to fund those requirements. The capital policies and plans are reviewed and approved annually by the Board of Directors.

Management regularly monitors the company's capital position and reports to the Board of Directors on a quarterly basis.

Governance Risk

Governance risk is the risk of financial and/or reputational loss caused by lack of effectiveness of the Board of Directors and senior Management.

Governance risk is mitigated through qualification criteria, director orientation, ongoing development and training, regular meetings, annual strategic planning process, and an annual evaluation.

Legal and Regulatory Risk

Legal and regulatory risk is the risk of loss due to failure to adhere to the legal and regulatory standards.

League Savings is governed by the *Trust and Loan Companies Act* (Canada) and regulated by the Office of the Superintendent of Financial Institutions (OSFI). League Savings also complies with provincial legislation where applicable to its operation. OSFI regularly reviews the activities of the company and periodically carries out on-site examinations. All correspondence to and from OSFI is reported to the Board of Directors by Management. The company is also a member of the Canada Deposit Insurance Corporation.

League Savings maintains a legislative compliance management system in which all existing and emerging legislative and regulatory requirements are regularly reviewed and reported on. New policies and procedures are developed to address legislative requirements as appropriate.

The Board of Directors receives a quarterly compliance report in which any deficiencies and corresponding action plans are identified.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed processes, technology, or human performance, or from external events.

While operational risk can never be fully eliminated, League Savings manages this type of risk through implementation of a comprehensive set of procedures and policies. Elements include:

- developing and maintaining a comprehensive system of internal controls, encompassing segregation of functional activities, managerial reporting and delegation of authority
- striving to maintain industry best practices in the area of operational risk management through continued monitoring and evaluation of our practices
- selection and training of highly qualified staff, supported by policies that provide for skills upgrading, clear authorization levels, and adherence to an employee code of conduct
- maintaining adequate insurance to reduce the impact of any potential losses, supported by a detailed business continuity plan

Strategic Risk

Strategic risk is the risk of loss due to failure to create, implement, and monitor an effective strategic plan, including procedures for the development and review of new business initiatives and changing business circumstances.

Strategic priorities for the next three years are established during the annual Board and Management planning session. Management then develops the annual business plan for approval by the Board. Management reports to the Board of Directors on the progress toward achieving the annual business plan at each regular Board of Directors' meeting.

FINANCIAL STATEMENTS

December 31, 2015

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management has the responsibility of preparing the accompanying financial statements and ensuring that all information in the annual report is consistent with the financial statements. This responsibility includes selecting appropriate accounting principles and making objective judgments and estimates in accordance with International Financial Reporting Standards.

In discharging its responsibility for the integrity and fairness of the financial statements, Management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and proper records maintained. The Board of Directors has appointed an Audit Committee to review the annual financial statements with Management and auditors before final approval by the Board.

The federal regulator of financial institutions conducts examinations and makes such enquiries into the affairs of League Savings and Mortgage Company (League Savings) as they deem necessary to ensure the safety of depositors and to ensure that the Company is in sound financial condition. Their findings are reported directly to Management.

PricewaterhouseCoopers LLP, the independent auditors, have examined the financial statements of League Savings in accordance with Canadian generally accepted auditing standards and have expressed their opinion in the following report to shareholders.

Michael Leonard
President and CEO

Sharon Arnold, CPA, CA
Senior Vice President, Finance and Chief Risk Officer

2015

INDEPENDENT AUDITORS' REPORT

To the Shareholders of League Savings and Mortgage Company

We have audited the accompanying financial statements of League Savings and Mortgage Company ("League Savings"), which comprise the balance sheet as at December 31, 2015, and the statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of League Savings as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements of League Savings and Mortgage Company for the year ended December 31, 2014, were audited by another auditor who expressed an unmodified opinion on those statements dated February 25, 2015.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
February 26, 2016
Halifax, Canada

BALANCE SHEET

December 31 (Cdn Dollars)

	2015	2014
Assets		
Cash and cash equivalents	$ 3,396,637	$ 3,104,998
Investments (note 6)	33,422,293	28,286,741
Loans and mortgages (note 7)	424,751,550	425,494,171
Accrued interest	1,062,023	1,015,350
Deferred tax assets (note 14)	463,643	460,704
Other assets	3,866,017	1,117,909
	$ 466,962,163	$ 459,479,873
Liabilities		
Borrowings (note 16)	$ –	$ 1,006,401
Deposits (note 17)	369,116,983	382,393,248
Accrued interest	3,075,526	3,811,373
Accounts payable and accrued liabilities	2,668,240	2,772,765
Income tax payable	343,684	123,016
Mortgage backed securities (note 8)	49,038,266	28,130,196
Subordinated debentures (note 9)	7,102,000	7,102,000
	431,344,699	425,338,999
Shareholders' equity		
Capital stock (note 10)	16,096,798	16,096,798
Contributed surplus	1,785,887	1,785,887
Retained earnings	17,417,575	15,981,295
Accumulated other comprehensive income	317,204	276,894
	35,617,464	34,140,874
	$ 466,962,163	$ 459,479,873

Commitments and contractual obligations (note 13)

See accompanying notes to the financial statements

Approved:

Michael Leonard
President and CEO

On Behalf of the Board:

Ray Surette
Chair

Doug Dewling
Director

STATEMENT OF INCOME

Year Ended December 31 (Cdn Dollars)

	2015	2014
Financial income		
Interest on investments	$ 771,700	$ 836,567
Interest on loans and mortgages	16,393,865	18,282,908
	17,165,565	19,119,475
Financial expense	8,249,839	9,331,202
Gross financial margin	8,915,726	9,788,273
Provision for loan losses (recovery)	(26,250)	(50,750)
Net financial margin	8,941,976	9,839,023
Other financial income	325,338	340,936
Net financial income	9,267,314	10,179,959
Non–interest income (expense) (note 19)	66,765	(527,306)
	9,334,079	9,652,653
Operating expenses		
Management fees (note 12)	5,111,168	5,271,103
Office expense	551,325	773,082
Marketing and business development	15,095	23,471
Democracy	191,580	204,979
Professional fees	115,752	123,100
Other expenses	118,784	109,124
	6,103,704	6,504,859
Operating income	3,230,375	3,147,794
Interest on subordinated debentures	280,529	308,227
Special Projects (note 20)	–	593,408
Income before taxes	2,949,846	2,246,159
Taxes (note 14)	1,090,220	926,543
Net income	$ 1,859,626	$ 1,319,616

See accompanying notes to the financial statements

STATEMENT OF COMPREHENSIVE INCOME

Year Ended December 31 (Cdn Dollars)

	2015	2014
Net income	$ 1,859,626	$ 1,319,616
Other comprehensive income (OCI)		
Items that will be reclassified subsequently to income:		
Net change in unrealized gains (losses) on available for sale investments:		
Net unrealized gains (losses) on available for sale investments	174,953	88,099
Reclassification of net realized losses (gains) to net income	(115,296)	(25,974)
Income tax expense: (note 14)		
On unrealized losses (gains) on available for sale investments	(54,236)	(26,658)
On reclassification of net realized gains (losses) to net income	34,889	7,860
Other comprehensive income (loss)	40,310	43,327
Comprehensive income	$ 1,899,936	$ 1,362,943

See accompanying notes to the financial statements

STATEMENT OF CHANGES IN MEMBERS' EQUITY

Year Ended December 31, 2015 (Cdn Dollars)	**Common Shares (note 10)**	**Preferred Shares (note 10)**	**Contributed Surplus**	**Accumulated Other Comprehen-sive Income**	**Retained Earnings**	**Total Equity**
Balance at beginning of year	$ 2,110,057	$ 13,986,741	$ 1,785,887	$ 276,894	$ 15,981,295	$ 34,140,874
Net income	–	–	–	–	1,859,626	1,859,626
Other comprehensive income (loss) net of tax	–	–	–	40,310	–	40,310
Comprehensive income	–	–	–	40,310	1,859,626	1,899,936
Dividends	–	–	–	–	(423,346)	(423,346)
Balance at end of year	$ 2,110,057	$ 13,986,741	$ 1,785,887	$ 317,204	$ 17,417,575	$ 35,617,464

Year Ended December 31, 2014 (Cdn Dollars)	**Common Shares (note 10)**	**Preferred Shares (note 10)**	**Contributed Surplus**	**Accumulated Other Com-prehensive Income**	**Retained Earnings**	**Total Equity**
Balance at beginning of year	$ 2,110,057	$ 13,986,741	$ 1,785,887	$ 233,567	$ 15,126,877	$ 33,243,129
Net income	–	–	–	–	1,319,616	1,319,616
Other comprehensive income (loss) net of tax	–	–	–	43,327	–	43,327
Comprehensive income	–	–	–	43,327	1,319,616	1,362,943
Dividends	–	–	–	–	(465,198)	(465,198)
Balance at end of year	$ 2,110,057	$ 13,986,741	$ 1,785,887	$ 276,894	$ 15,981,295	$ 34,140,874

See accompanying notes to the financial statements

STATEMENT OF CASH FLOWS

Year Ended December 31 (Cdn Dollars)

Increase (decrease) in cash and cash equivalents	**2015**	2014
Operating activities		
Operating activities		
Net income	$ 1,859,626	$ 1,319,616
Adjustments:		
Loans and mortgages, net	742,621	18,824,359
Deposits, net	(13,276,265)	(15,999,436)
Mortgage backed securities, net	20,908,070	5,750,627
Interest receivable/payable, net	(782,520)	(161,936)
Income tax receivable/payable, net	220,668	248,685
Deferred tax assets, net	(2,939)	48,318
Other items, net	(2,852,633)	318,338
	6,816,628	10,348,571
Financing activities		
Dividends paid	(423,346)	(465,198)
	(423,346)	(465,198)
Investing activities		
Investments, net	(5,095,242)	(259,246)
	(5,095,242)	(259,246)
Net increase (decrease) in cash and cash equivalents	1,298,040	9,624,127
Cash and cash equivalents (net)		
Beginning of year	2,098,597	(7,525,530)
End of year	$ 3,396,637	$ 2,098,597
Includes:		
Cash on hand and balances with financial institutions	$ 3,396,637	$ 3,104,998
Borrowings	–	(1,006,401)
	$ 3,396,637	$ 2,098,597
Supplemental disclosure of cash flow information:		
Interest received	$ 17,112,360	$ 19,282,199
Dividends received	6,532	7,540
Interest paid	8,985,686	9,663,402
Income taxes paid, net of refunds	891,838	680,490

See accompanying notes to the financial statements

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

1. Reporting entity

League Savings and Mortgage Company ("the Company") is incorporated in Canada under the *Federal Trust and Loan Companies Act*. The Company is a member of Canada Deposit Insurance Corporation, and is regulated by the Office of the Superintendent of Financial Institutions (OSFI). Its head office is located at 6074 Lady Hammond Road in Halifax, Nova Scotia. The Company provides financial services to credit unions, their members, and others.

Atlantic Central (Central) owns 100% of the common shares. Preferred A shares are primarily owned by credit unions in the Atlantic provinces. Atlantic Central is the continuance of Credit Union Central of Nova Scotia and is owned by credit unions in the Atlantic provinces.

The financial statements were authorized for issue by the Board of Directors on February 26, 2016.

2. Basis of presentation

The financial statements are presented in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of the financial statements are set out in Note 3. The financial statements have been prepared on the historical cost basis except for certain financial instruments as indicated in Note 3.

The Company presents its balance sheet on a non-classified basis. The following balances are generally classified as current: cash and cash equivalents, fixed income investments and loans and mortgages maturing within one year, other assets, borrowings, demand deposits, term deposits and mortgage backed securities maturing within one year, and accounts payable and accrued liabilities.

3. Summary of significant accounting policies

Financial instruments

Financial assets and liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below.

Financial assets must be classified as fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity (HTM) or loans and receivables (L&R). Financial liabilities are required to be classified as FVTPL or other financial liabilities (OFL).

A financial asset is derecognized when the contractual rights to the cash flows from the asset have expired, or the Company transfers the contractual rights to receive the cash flows from the asset, or has assumed an obligation to pay those cash flows to a third party and the Company has transferred substantially all of the risks and rewards of ownership of that asset to a third party. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Changes in fair values of financial assets and financial liabilities classified as FVTPL are reported in earnings, while the changes in value of available for sale financial assets are reported within other comprehensive income (OCI) until the financial asset is disposed of, or becomes impaired.

Accumulated OCI is reported on the balance sheet as a separate component of Shareholders' Equity. It includes, on a net of taxes basis, the net unrealized gains and losses on available for sale financial assets.

The Company has classified its financial instruments as follows:

FVTPL	Interest rate swaps
AFS	Investments
L&R	Loans and mortgages, accrued interest and other assets
OFL	Borrowings, deposits, mortgage backed securities (MBS), accrued interest, accounts payable and accrued liabilities, and subordinated debentures

All financial instruments, including all derivatives, are measured at fair value on the balance sheet with the exception of loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, and balances with financial institutions.

Investments

Investments have been designated as available for sale. Investments are initially recorded at cost with premiums and discounts amortized to maturity. Investments are reported at market value with any unrealized gains or losses reported in OCI.

Investment income is recognized on an accrual basis. Realized gains and losses on the disposal of securities are included in investment income. All securities are held for investment purposes.

Loans and mortgages

Loans and mortgages have been designated as loans and receivables. Loans and mortgages are net of allowances established to recognize anticipated losses. The amount provided for anticipated loan losses is determined by reference to specific loans or mortgages in arrears and by the judgment of Management.

Loans are assessed for impairment either individually, where appropriate, or collectively. A collective allowance has been established to provide for losses on loans and mortgages where past experience and existing economic and portfolio conditions indicate that losses have occurred, but where such losses cannot be specifically identified on an account-by-account basis.

Specific allowances are provided for individual loans that have experienced deterioration in credit quality such that there is no longer a reasonable assurance of the timely collection of the full amount of principal and interest, and where the current carrying value of the loan is greater than the present value of the future cash flows. The assessment of individual loans includes monthly reporting on delinquent accounts as well as an evaluation of other accounts where the possibility of loss exists, and includes an assessment of the security on the loan.

The collective allowance is determined based on Management's judgment considering business and economic conditions, portfolio composition, historical credit performance and other relevant factors. Pools of loans are assessed based on attributes specific to a defined group of borrowers, and considers other characteristics that directly affect the collectability of loans that are unique to the defined group of borrowers (such as inherent credit risk, industry, and geography). Each pool of loans is assigned a portfolio risk factor, which is used to determine a base amount required for the collective allowance. This base amount is adjusted to reflect the fluctuations in market conditions that most highly correlate with credit losses.

Assets received from borrowers in the event of borrower default are recorded as real estate held for resale (classified under loans and mortgages), and are recorded at the lower of the carrying value and the fair value less costs to sell. On the acquisition date any excess of the carrying value of the loan over the fair value of the assets received is recognized by a charge to the provision for credit losses. Any subsequent change in the fair value of real estate held for resale is recognized by a charge to lending services expenses.

The Company periodically sells or purchases mortgages, primarily to or from credit unions. In these transactions, the seller continues to administer the loans sold, but the contractual right to receive payments on the loans is offset by an obligation to transfer these payments to the purchaser. The loans sold by the Company are derecognized, and the loans purchased are recognized, on the date of the transfer.

Mortgage backed securities

The Company securitizes insured residential mortgages through the creation of mortgage backed securities (MBS) under the *National Housing Act* Mortgage-Backed Securities (NHA MBS) program sponsored by Canada Mortgage and Housing Corporation (CMHC). All loans securitized under the NHA MBS program are required to be insured by the Canadian Mortgage Housing Corporation or a third-party insurer. The NHA MBS Program utilizes a Central Payor and Transfer Agent (CPTA). The use of one designated CPTA for all Issuers makes greater Program efficiency possible in paying Investors, transferring NHA MBS and issuing new NHA MBS.

The MBS created under the program are sold to third-party investors (Market MBS), or are sold to Canada Housing Trust (the Trust), a government-sponsored structured entity, under the Canada Mortgage Bond (CMB) program.

In a Market MBS the CPTA registers the NHA MBS and issues NHA MBS Certificates to investors, and CMHC provides a guarantee of the timely payment of amounts due to the investors. The MBS are backed by the residential mortgages, and amortize in step with the mortgages underlying the security.

In the CMB program, the Trust aggregates NHA MBS from multiple issuers, financing the purchase of the NHA MBS through the issuance of securities to third-party investors. These CMB securities provide investors with semi-annual interest payments over the term of the bond, and the repayment of the principal balance on the specified maturity date. The timely payment of interest and principal to investors is guaranteed by CMHC.

The Company uses these securitization programs to diversify its funding sources.

With Market MBS, the Company typically continues to administer the loans securitized, and is entitled to the payments received on the mortgages. At the same time, the Company is obligated to make the payments due on the issued MBS, including the investment yield due to the investors in the security, regardless of whether the Company has collected the funds from the mortgagor.

The Company also purchases pools of mortgages to sell into the CMB program. These mortgage pools are typically administered by a third-party mortgage servicer, for a fee. For these pools, the Company is also entitled to the payments received on the mortgages and obligated to make the payments due on the issued MBS.

Unlike the Market MBS, the CMB securities do not amortize in step with the underlying mortgages. As a result, the CMB program requires the provision of replacement MBS securities to offset the declining balance of the underlying mortgages through principal payments. The CMB program also requires an interest rate swap agreement under which a Swap Counterparty pays the CHT the interest due to investors, and receives the interest on the NHA MBS securities. For a fee, the Company has contracted with a third-party financial institution to take on the requirements to provide the replacement NHA MBS securities, and to act as the Swap Counterparty.

Derecognition

In most cases, the sale of mortgages through the NHA MBS program does not meet the requirements for derecognition. Typically, the Company has not transferred substantially all the risks and rewards of ownership of the underlying mortgages, as the Company retains the prepayment, credit and interest rate risk associated with the mortgages. For sales of MBS that do not qualify for derecognition, the Company continues to recognize the underlying mortgages in assets as secured loans and the cash proceeds from the securitization are recognized as liabilities.

Securitization retained interests and servicing liabilities

In certain cases, the Company has sold pools of mortgages into the CMB program where the Company's continuing involvement in the securitized assets is quite limited. In these transactions, the Company retains the rights to the future excess interest spread and the liability associated with servicing the assets sold, with very little exposure to variable cash flows.

The Company accounts for its continuing involvement in these pools as retained interests and servicing liabilities on the balance sheet, in other assets and other liabilities respectively. During the life of the securitization, as cash is received, the retained interest and the servicing liability are amortized and recognized in the statement of income under interest on loans and mortgages, and other financial income (lending services expenses), respectively.

Gains on securitization

When an asset is derecognized, the gains or losses on these transactions are recorded in other financial income (lending services fees) and are dependent in part on the previous carrying amount of the financial assets involved in the transfer. The proceeds of the sale are allocated between the assets sold and the retained interests, based on their relative fair value at the date of transfer and net of transaction costs.

Impairment

Investments are reviewed for impairment on at least an annual basis. Changes in the fair value of available for sale investments are reported in other comprehensive income. If the investment is impaired, however, any cumulative losses previously recognized in OCI are reclassified from equity to net income.

Loans and mortgages are classified as impaired at the earlier of when, in the opinion of Management, there is reasonable doubt as to the collectability of principal or interest, or when interest or principal is contractually past due 90 days, unless the loan or mortgage is both well secured and in the process of collection. Interest on an impaired loan or mortgage continues to be recognized in earnings on an accrual basis and is provided for in the allowance for loan losses.

Non-financial assets are assessed for impairment at least annually and, where impairment exists, the carrying value is reduced to the recoverable amount and any adjustment is recognized in earnings.

Revenue and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can readily be measured. The principal sources of revenue are interest and fee income. Operating expenses are recognized upon the utilization of the services or at the date of their origin.

Interest on loans and mortgages is recognized and reported on an accrual basis using the effective interest method. Expenses incurred directly in the origination of loans and mortgages are deferred and recognized in the income statement as a reduction to income over the expected life of the relevant loans and mortgages. Fee, commission and other income is recognized on an accrual basis as it is earned.

The Company periodically sells mortgages. Gains or losses are recognized on transfers of mortgages to other parties when the Company has transferred the significant risks and rewards of ownership. Where the Company continues to service the mortgages, an administration fee is calculated on the outstanding balance of the mortgages. This fee is recognized as the services are provided and reported in earnings in lending services fees in non-interest income.

Leases

A lease transfers the economic ownership of a leased asset if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance leasing liability.

All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax (losses), tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities / (assets) are settled / (recovered).

Deposits

Deposits are measured at fair value on recognition net of transaction costs directly attributable to issuance. Subsequent measurement is at amortized cost using the effective interest method.

Special projects

Expenses that are not expected to recur in normal operations, including certain expenses relating to credit union system initiatives, are charged to special projects.

Critical accounting estimates and assumptions

In preparing the Company's financial statements, Management is required to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ materially from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recorded in the period in which the estimate reversed if the revision affects only that period or in the period of revision and in future periods if the revision affects both the current and future periods.

The judgments and estimates that have the most significant effect on the amounts recognized in the financial statements are decisions with respect to the fair value of financial instruments, the allowance for loan losses, the derecognition of loans and mortgages, and income taxes.

Fair value of financial instruments
The determination of the fair value of financial instruments requires the exercise of judgment by Management. The fair value of financial instruments traded in active markets at the balance sheet date is based on their quoted market prices. Where independent quoted market prices do not exist, fair value may be based on other observable current market transactions or based on a valuation technique which maximizes the use of observable market inputs.

For certain types of equity instruments, where no active market exists or where quoted prices are not otherwise available, fair value is determined by using valuation techniques. Management has reviewed the attributes of these investments and has determined that the fair value was equal to the redemption value of the investment, as there is no ability to otherwise sell the investment. Management has also determined that the redemption value approximated historical cost.

Allowance for credit losses
Judgments about the impairment of loans and mortgages, and the related allowances for credit losses, are based on Management's best estimate of the present value of the cash flows that are expected to be received. This includes estimates about the borrower's financial situation and the net realizable value of any underlying collateral. Collectively assessed allowances cover credit losses in portfolios of loans and mortgages having similar credit characteristics, and include judgments regarding factors such as portfolio credit quality, concentrations of credit, and economic factors. In order to estimate collective allowances, assumptions are made in determining modelling parameters based on historical experience and current economic conditions.

Derecognition of loans and mortgages
In determining whether to derecognize loans and mortgages, judgment is applied in determining whether the Company has transferred substantially all of the risks and rewards of ownership in transferring the assets to another entity, and the degree of control exercised by the Company over the other entity.

Income taxes
The determination of deferred tax assets or liabilities requires judgment as the recognition is dependent on projections of future taxable profits and tax rates that are expected to be in effect in the period the asset is realized or the liability is settled.

4. Changes in accounting standards

The IASB continues to make changes to IFRS to improve the overall quality of financial reporting. The Company monitors IASB developments that are relevant to the Company's financial reporting and accounting policies.

Changes in accounting policies during the year

A number of new and amended accounting standards were issued by the IASB which became effective on January 1, 2015, including:

- *IFRS 8 – Operating Segments* – which clarifies that an entity must disclose the judgments made by Management in applying aggregation criteria regarding operating segments.
- *IFRS 13 – Fair Value Measurement* – which clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial
- *IAS 16 – Property, Plant and Equipment*, and *IAS 38 Intangible Assets* – which clarify methods of depreciation and amortization.
- *IAS 24 – Related Party Disclosures* – which clarifies that the definition of a "related party" is extended to include a management entity that provides key Management personnel (KMP) services to the reporting entity. The reporting entity is required to separately disclose the amounts it has recognized as an expense for those services that are provided by the management entity; however, it is not required to "look through" the management entity and disclose the compensation paid by the management entity to the individuals providing KMP services.

The adoption of new and amended standards during the year has not resulted in changes in the carrying amount of assets or liabilities previously reported.

Future changes in accounting policies

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2015, and have not yet been adopted by the Company in preparing these financial statements. Other than the introduction of IFRS 9, these changes are not expected to have a material impact on the financial statements.

IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of *IFRS 9 – Financial Instruments*, first issued in November 2009, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39.

IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets are measured at FVTPL unless certain conditions are met which permit measurement at amortized cost or fair value through OCI. The classification and measurement of liabilities remain generally unchanged, with the exception of liabilities recorded at FVTPL.

IFRS 9 also introduces a new expected loss impairment model for all financial assets not at FVTPL, which results in credit losses being recognized regardless of whether a loss event has occurred. This expected credit loss (ECL) model replaces the current "incurred loss" model of IAS 39.

The ECL model requires an entity to recognize expected credit losses at all times and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of financial instruments. The ECL model has three stages:

- Stage 1 – on initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established;
- Stage 2 – if credit risk increases significantly and the resulting credit quality is not considered to be low credit risk, full lifetime expected credit losses are recognized; and
- Stage 3 – when the credit risk of a financial asset increases to the point it is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. Lifetime expected credit losses are still recognized on these financial assets.

Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities.

IFRS 9 is effective January 1, 2018. While the impact of the new standard on the Company has not yet been determined, the Company will be participating in a national credit union system initiative to assist credit unions, and related entities to prepare for the implementation of IFRS 9.

IFRS 15 – Revenue from Contracts with Customers, which is also effective January 1, 2018, provides a recognition and measurement approach that replaces the previous revenue standard (IAS 18 – Revenues), and the related interpretations on revenue recognition. The new standard is a control-based model that focuses on risk

and rewards. Under the new standard, revenue is recognized when a customer obtains control of a good or service. The new model applies to all contracts with customers except those that are within the scope of other IFRS standards such as leases, insurance contracts and financial instruments.

IFRS 16 – Leases, which is effective January 1, 2019, sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"). IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognize:

- Assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- Depreciation of lease assets separately from interest on lease liabilities in the income statement.

5. Risk management

The Company has an enterprise-wide approach to the identification, measurement, monitoring and management of risks faced across the organization. The Company manages significant risks efficiently and effectively through an Enterprise Risk Management Framework (ERM) which includes a comprehensive infrastructure of policies, procedures, methods, oversight and independent review, designed to reduce the significant risks and to manage those risks within appropriate tolerances for the Company.

Authority for all risk-taking activities rests with the Board of Directors (Board), which approves the Company's Risk Appetite Statement and risk management policies, delegates limits and regularly reviews management's risk assessments and compliance with approved policies. Qualified professionals throughout the Company manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes.

The various processes within the Company's risk management framework are designed to ensure that risks in the various business activities are properly identified, measured, stress tested, assessed and controlled. Internal Audit reports independently to the Audit, Risk & Conduct Review Committees of the Board on the effectiveness of the risk management policies and the extent to which internal controls are in place and operating effectively.

Stress testing is a risk measurement technique that examines the potential effects on the Company's financial condition resulting from adverse economic, liquidity, credit, and/or financial market conditions. The Company's risk management processes include stress testing scenarios including exceptional but plausible adverse events that can impact the Company's financial results and capital requirements, the results of which are used to enhance our understanding of our risk profile, and to support our strategic decision making. Stress testing results are also explicitly incorporated into the Company's Internal Capital Adequacy Assessment Process (ICAAP) and Capital Plan.

The Chief Risk Officer is responsible for the oversight of risk management across the organization and reports quarterly to the Risk Committee and the Board. The Management Finance Committee (MFC) is responsible for the review and evaluation of the financial risks and performance of the Company, including the management of:

- Credit risk
- Liquidity
- Interest rate risk
- Foreign exchange
- Investment portfolio
- Derivatives
- Large exposures
- Capital

The MFC reviews financial risk management policies, recommends changes to policies and procedures as appropriate, and monitors compliance with financial policies.

The Asset Liability Management Committee (ALCO) has been established to ensure the effective and prudent management of the Company's financial assets and liabilities. ALCO will achieve this by developing and implementing financial strategies and related processes consistent with the short- and long-term goals set by the Board.

The Company's principal business activities result in a balance sheet that consists primarily of financial instruments. The key risks related to our financial instruments are credit, liquidity and market risk.

Credit risk

Credit risk is the potential for loss due to the failure of a borrower, endorser or guarantor to fulfill its payment obligation to the Company. Credit risk arises in the Company's direct lending operations and in its funding and investing activities where counterparties have repayment or other obligations to the Company. The Company has established policies and procedures for credit risk management, including counterparty limits relating to investment activities.

Management of credit risk requires prudent and conservative underwriting criteria administered by well-trained and experienced personnel. Credit risk management practices also include consistent and timely collection procedures, conservative analysis of property appraisals, and a realistic loan allowance process to provide a regular evaluation of the loan portfolio. Credit policies are reviewed and approved annually by the Board. Management regularly reviews its credit procedures to ensure they provide extensive, up-to-date guidance for the underwriting and administration of all types of loans.

All loans are risk rated at the time of approval, and may be subject to subsequent risk assessment based on factors such as loan type, amount, original risk rating and payment history. Loans with higher risk require more intensive analysis and higher levels of approval. The Credit Committee of the Board reviews all loans above the lending limits of Management.

The Company maintains both specific and collective allowances for credit losses. Specific allowances are established based on Management's knowledge of the property and prevailing conditions. Collective allowances are maintained to cover any impairment in the loan portfolio that cannot yet be associated with specific loans. The collective allowance is determined based on the Company's risk weighted portfolio and other factors including an assessment of market risk.

The Company utilizes OSFI's Standardized approach for credit risk (Note 15), which includes OSFI-prescribed risk-weights based on factors including counterparty type, product type, collateral, and external credit assessments.

Management regularly monitors the Company's credit risk and reports to the Board on a quarterly basis.

Liquidity risk

Liquidity refers to the capacity to generate or obtain sufficient cash or its equivalent in a timely manner at a reasonable price to meet the Company's commitments as they fall due and to fund new business opportunities. Liquidity risk is the potential for losses to be incurred from holding insufficient liquidity to survive a contingent stress event.

In its role as a credit union service partner, the Company's primary financial role is to accept deposits from credit unions, their members, and others, and to employ those funds to advance loans and mortgages to credit union members and others.

The Company has established policies to ensure that it is able to generate sufficient funds to meet all of its financial commitments in a timely and cost-effective manner. In addition, a liquidity plan is prepared which forecasts the amount of liquidity required and the sources that will be used to fund those requirements. These policies and plans are annually reviewed and approved by the Board.

The Company's liquidity management practices include:

- Ensuring the quality of investments acquired for liquidity purposes meet very high standards
- Matching the maturities of assets and liabilities
- Diversifying funding sources
- Establishing and maintaining minimum liquidity reserves
- Monitoring actual cash flows on a daily basis
- Forecasting future cash flow requirements
- Utilizing lines of credit to fund temporary needs and selling or securitizing mortgage pools to meet longer term requirements
- Scenario testing and contingency planning

League Savings' cash flows are most significantly impacted by its credit union corporate deposits. As such, its scenario testing focuses on increases in the redemptions of these deposits.

Management monitors the Company's liquidity position daily and reports to the Board on a quarterly basis.

Market risk

Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates, equity prices and commodity prices. Market risk exposures are managed through policies, standards and limits established by the Board, which are formally reviewed and approved annually.

The Company uses a variety of techniques to identify, measure and control market risk. Derivatives may be used only to offset clearly identified risks. The Company has developed standards regarding the use of derivative products.

Interest rate risk is the risk that a movement in interest rates will have on the financial condition of the Company. The Company's interest rate risk policies include limits on the allowable variation in forecasted financial margin due to interest rate changes. The Company manages and controls interest rate risk primarily by managing asset/liability maturities; however, off-balance sheet techniques such as interest rate risk contracts may be used to hedge against specific interest rate exposures.

The Company measures interest rate risk through a combination of gap and income simulation analysis on a quarterly basis. Gap analysis measures the difference between the amount of assets and liabilities repricing in specific time periods. Income simulation models are used to measure interest rate exposure under various assumptions about interest rates, products, volumes and pricing. Sensitivity analysis of an interest rate increase and decrease of 100 basis points is disclosed in the table below.

Earnings at Risk over the next 12 months as at December 31:

	2015	2014
100 basis point increase	$ (177,800)	$ (311,380)
100 basis point decrease	(269,700)	169,850

Management provides quarterly reports to the Board on interest rate risk. The Board has established limits on the Company's maximum exposure to interest rate risk, and the Company's earnings at risk were within this limit.

6. Investments

	2015 Cost	**2015 Market Value**	2014 Cost	2014 Market Value
Government debt	$ 15,785,874	$ 16,075,568	$ 15,715,983	$ 15,908,808
Corporate debt	7,033,402	7,126,550	7,027,396	7,121,050
Co-operative deposits	10,000,000	10,000,000	5,000,000	5,059,658
Co-operative equities	4,025	4,025	4,025	4,025
Corporate equities	50,000	216,150	50,000	193,200
	$ 32,873,301	$ 33,422,293	$ 27,797,404	$ 28,286,741

7. Loans and mortgages

	Total Loans	Impaired Loans	Total Allowance	Specific Allowance (included in total allowance)	Net Loans
2015					
Residential insured	$ 358,033,261	$ –	$ 201,439	$ –	$ 357,831,822
Residential uninsured	86,366,952	190,887	408,490	–	85,958,462
Non-residential	90,781,050	347,132	816,823	30,238	89,964,227
Real estate held for sale	1,910,765	–	–	–	1,910,765
	537,092,028	538,019	1,426,752	30,238	535,665,276
Less: under administration					
Residential insured	99,597,331	–	–	–	99,597,331
Residential uninsured	10,070,816	–	–	–	10,070,816
Non-residential	1,245,579	–	–	–	1,245,579
	110,913,726	–	–	–	110,913,726
	$ 426,178,302	$ 538,019	$ 1,426,752	$ 30,238	$ 424,751,550
2014					
Residential insured	$ 348,302,096	$ –	$ 202,830	$ –	$ 348,099,266
Residential uninsured	87,862,750	191,143	402,163	5,266	87,460,587
Non-residential	91,317,910	97,823	820,324	–	90,497,586
Real estate held for sale	1,792,339	–	–	–	1,792,339
	529,275,095	288,966	1,425,317	5,266	527,849,778
Less: under administration					
Residential insured	89,363,383	–	–	–	89,363,383
Residential uninsured	10,164,955	–	–	–	10,164,955
Non-residential	2,827,269	–	–	–	2,827,269
	102,355,607	–	–	–	102,355,607
	$ 426,919,488	$ 288,966	$ 1,425,317	$ 5,266	$ 425,494,171

	2015	2014
Continuity of allowance for loan losses		
Allowance, beginning of year	$ 1,425,317	$ 1,608,719
Write-offs (recoveries)	–	(25,647)
Loan loss provisions (recoveries)	1,435	(157,756)
Allowance, end of year	$ 1,426,752	$ 1,425,317

The following is an analysis of loans that are impaired or may become impaired based on the age of repayments outstanding:

	2015	2014
31 to 60 days	$ 1,143,900	$ 1,674,279
61 to 90 days	275,042	369,770
91 to 180 days	347,327	246,538
over 180 days	726,918	221,272
	$ 2,493,187	$ 2,511,859

8. Mortgage backed securities

Balances relating to mortgage backed securities under the NHA MBS program are as follows:

a) Transferred assets that do not qualify for derecognition

	2015			2014		
	Market MBS	**CMB**	**Total**	Market MBS	CMB	Total
Carrying value of NHA MBS assets	$ 33,357,776	15,695,174	49,052,950	$ 28,152,923	–	28,152,923
Carrying value of associated liabilities	33,343,092	15,695,174	49,038,266	28,130,196	–	28,130,196

b) Transferred assets that have been derecognized

In addition to the mortgage backed securities above, mortgages totalling $65,911,377 were sold into the CMB program in 2015 and derecognized. In 2015 gains of $525,877 on these sales (2014 – $Nil) were included in lending services fees in non-interest income.

9. Subordinated debentures

Series B debentures are unsecured and subordinated to all other indebtedness of the Company. The minimum interest rate is equal to 1.5 times the dividend rate on the Preferred A shares. Series B debentures are convertible into Preferred A shares at the option of the holder and redeemable at the option of the Company, subject to the approval of the Office of the Superintendent of Financial Institutions.

	Maturity Date	Earliest Redemption	**2015**	2014
Series B	December 31, 2024	December 31, 2009	$ 7,102,000	$ 7,102,000

During the year there were no subordinated debentures issued or redeemed.

During the year, the Company developed a capital restructure plan which would result in the redemption of both subordinated debentures and Class A preferred shares. Credit unions would reinvest the proceeds of redemption in a new class of preferred shares of Atlantic Central. Central would, in turn, invest in additional common shares of the Company. The successful completion of the plan would result in an increase in the Company's Common Equity Tier 1 – the strongest form of regulatory capital.

The Bylaw changes required to complete the restructure plan were approved by the shareholders of both Atlantic Central and the Company in September 2015. In January 2016 OSFI provided its approval for the redemption of the subordinate debentures and the Class A preferred shares. The completion of the restructure plan, which is dependent on a significant number of credit unions providing subscription agreements for the investment in the new class of preferred shares of the Central, is expected to take place in 2016.

10. Capital stock

Authorized capital stock is unlimited. The amounts outstanding are as follows:

	Outstanding			
	2015		2014	
	Shares	**Amount**	**Shares**	**Amount**
Common shares, no par value, voting	2,110,057	$ 2,110,057	2,110,057	$ 2,110,057
Class A preferred shares, no par value, non- cumulative, redeemable, non-retractable, voting	13,986,740	13,986,741	13,986,740	13,986,741
		$ 16,096,798		$ 16,096,798

The consideration for any shares issued or redeemed is cash. The Class A preferred shares are redeemable by the Company at a redemption rate of $1 per share, subject to OSFI approval.

See note 9 for a description of the Company's capital restructure plan, expected to be completed in 2016.

11. Financial instruments

a) Interest rate risk

The Company earns and pays interest on certain assets and liabilities. To the extent that the assets, liabilities and financial instruments mature or reprice at different points in time, the Company is exposed to interest rate risk. The table below summarizes carrying amounts of balance sheet instruments by the earlier of the contractual repricing or maturity dates.

An estimate of prepayments has been determined by Management and includes the estimated principal portion of regular mortgage payments and full payouts of mortgage loans during their term based upon historical trends for these types of payments.

(Reported in $000's)	Within 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Non–interest Sensitive	Total	Average Rate
2015							%
Assets							
Cash and investments	$ 10,000	$ –	$ 20,689	$ 2,130	$ 4,000	$ 36,819	1.52
Loans	19,007	84,739	322,233	–	(1,227)	424,752	3.82
Other assets	–	–	–	–	5,391	5,391	
	$ 29,007	$ 84,739	$ 342,922	$ 2,130	$ 8,164	$ 466,962	
Liabilities and equity							
Borrowings	$ –	$ –	$ –	$ –	$ –	$ –	
Deposits							
Fixed	35,787	140,745	176,381	–	–	352,913	1.95
Variable	16,204	–	–	–	–	16,204	0.12
Mortgage backed securities	–	–	49,038	–	–	49,038	1.76
Other liabilities	–	–	–	–	6,088	6,088	
Equity and subordinated debentures	–	–	–	–	42,719	42,719	
	$ 51,991	$ 140,745	$ 225,419	$ –	$ 48,807	$ 466,962	
Subtotal	$ (22,984)	$ (56,006)	$ 117,503	$ 2,130	$ (40,643)	$ –	
Prepayment estimate	12,084	36,251	(48,335)	–	–	–	
Excess (deficiency)	$ (10,900)	$ (19,755)	$ 69,168	$ 2,130	$ (40,643)	$ –	

(Reported in $000's)	Within 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Non–interest Sensitive	Total	Average Rate
2014							%
Assets							
Cash and investments	$ 3,001	$ 9,533	$ 18,210	$ –	$ 648	$ 31,392	2.47
Loans	24,129	72,755	330,194	–	(1,584)	425,494	4.09
Other assets	–	–	–	–	2,594	2,594	
	$ 27,130	$ 82,288	$ 348,404	$ –	$ 1,658	$ 459,480	
Liabilities and equity							
Borrowings	$ 1,006	$ –	$ –	$ –	$ –	$ 1,006	3.00
Deposits							
Fixed	40,805	137,567	188,720	–	–	367,092	2.05
Variable	15,301			–	–	15,301	0.82
Mortgage backed securities	–	–	28,130	–	–	28,130	2.27
Other liabilities	–	–	–	–	6,708	6,708	
Equity and subordinated debentures	–	–	–	–	41,243	41,243	
	$ 57,112	$ 137,567	$ 216,850	$ –	$ 47,951	$ 459,480	
Subtotal	$ (29,982)	$ (55,279)	$ 131,554	$ –	$ (46,293)	$ –	
Prepayment estimate	12,382	37,147	(49,529)	–	–	-	
Excess (deficiency)	$ (17,600)	$ (18,132)	$ 82,025	$ –	$ (46,293)	$ –	

b) Interest rate swap agreements

The Company may enter into interest rate swap agreements as a component of its overall risk management strategy. These agreements are contractual arrangements between two parties to exchange a series of cash flows. In an interest rate swap agreement, counterparties generally exchange fixed and floating rate interest payments based on a notional value. Typically, the floating rate is reset periodically, and the net interest amount is exchanged between the counterparties at scheduled dates.

The primary risks associated with these contracts are the exposure to movements in interest rates and the ability of the counterparties to meet the terms of the contract. Interest rate swap agreements are used to manage interest rate risk by modifying the repricing or maturities of assets and liabilities. Interest rate swap agreements are considered financial derivatives and are recorded at fair value. Income and expenses on interest rate swap agreements are recognized over the life of the contract as an adjustment to interest expense. Accrued expenses are recorded in accrued interest payable. There were no interest rate swap agreements outstanding at December 31.

c) Index linked deposits

The Company offers index linked term deposits, which are non-redeemable three- and five-year term deposits that pay, on maturity, a return to the depositor linked to the performance of a market index. The interest paid to the depositor at maturity is based on the growth in the index over the term of the deposits.

To offset the risk of this variable interest rate, the Company enters into agreements, whereby the Company pays a fixed rate of interest for the term of each index linked deposit based on the face value of the deposits sold. At the end of the term, the Company receives an amount equal to the amount that will be paid to the depositors. At December 31, 2015, the balance of outstanding index linked deposits was $2,987,796 (2014 – $4,954,916).

d) Fair value

The following table presents the fair value of on- and off-balance sheet financial instruments of the Company based on the valuation methods and assumptions set out below. Fair value represents

the amount at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions, and is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

Fair value is best evidenced by a quoted market price, if one exists. Quoted market prices are not available for a significant portion of the Company's financial instruments.

The fair values disclosed exclude the values of assets and liabilities that are not considered financial instruments such as prepaid expenses. In addition, items such as the value of intangible assets such as customer relationships which, in Management's opinion add significant value to the Company, are not included in the disclosures below.

A three-tier hierarchy is used as a framework for disclosing fair values based on inputs used to value the Company's financial instruments recorded at fair value. Valuation methods used in this framework are categorized under the following fair value hierarchy:

- Level 1 – Quoted prices for active markets for identical financial instruments that the entity can access at the measurement date.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

The carrying value of cash and cash equivalents approximate their fair value as they are short term in nature or are receivable on demand. For investments, corporate equities are valued using quoted market prices (Level 1); government and corporate debt investments are valued using market prices provided by third-party brokers (Level 2); and co-operative equities are carried at estimated market value which approximates cost. There have been no transfers between Level 1 and 2 during the year.

For variable rate loans and deposits the carrying value is also considered to be a reasonable estimate of fair value. For fixed rate loans and mortgages, co-operative deposit investments, deposits, and mortgage backed securities, the fair value is calculated using a discounted cash flow model, based on current interest rates and the term to maturity of the instrument (Level 2). The discount rates applied were based on the current market rate offered for the average remaining term to maturity.

The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

	2015		2014	
	Cost	**Estimated Fair Value**	Cost	Estimated Fair Value
Assets				
Cash and cash equivalents	$ 3,396,637	$ 3,396,637	$ 3,104,998	$ 3,104,998
Investments	32,873,301	33,422,293	27,797,404	28,286,741
Loans and mortgages	424,751,550	432,072,210	425,494,171	433,371,710
Accrued interest	1,062,023	1,062,023	1,015,350	1,015,350
Liabilities				
Borrowings	$ –	$ –	$ 1,006,401	$ 1,006,401
Deposits	369,116,983	371,131,867	382,393,248	383,865,225
Accrued interest	3,075,526	3,075,526	3,811,373	3,811,373
Mortgage backed securities	49,038,266	49,297,407	28,130,196	28,533,763

12. Related party transactions

Parent

The Company has a contract with its parent, Atlantic Central (Central), for the receipt of executive and management services, all staffing and operational support services, and information technology and related services. This Management Outsourcing Agreement (MOA) became effective on January 1, 2013. On that date the employees of the Company became employees of Atlantic Central, with salaries and staff related expenses paid by the parent, and allocated to the Company through a management fee.

The Companies also transact other business in the ordinary course of operations. The following transactions and balances are measured at the exchange amount:

	2015	2014
Expenses and fees related to the management contract	$ 5,111,168	$ 5,271,103
Interest expense	845,046	905,851
Interest income	129,580	200,114
Rental and other expenses	177,634	277,397
Dividends	55,495	60,981
Deposits at Central	10,000,000	8,000,000
Borrowings from Central	–	1,006,401
Deposits from Central	46,883,793	46,883,793
Subordinated debentures held by Central	721,000	721,000
Amounts payable to Central	572,031	949,559
Balances relating to mortgages sold:		
Interest net of administration fees	317,947	278,704
Gain on mortgage pool sale	–	138,507
Mortgages under administration	6,614,222	9,833,295
Monthly remittances payable	85,123	200,916

Associates

In the ordinary course of business, the Company transacts business with League Data Limited, a related company by virtue of common ownership. The following transactions and balances are measured at the exchange amount:

	2015	2014
Services and equipment purchases from League Data Limited	$ 289,106	$ 313,134
Accounts payable to League Data Limited	30,819	23,827

Key Management personnel

Key Management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, and include members of the Board of Directors, the President and CEO, and other senior officers of the Company. The compensation paid to key Management (other than the Board of Directors) is paid by the Parent, with costs being allocated to the Company through the management fee. Under the MOA all management services are provided by the Parent. Compensation to members of the Board of Directors is limited to an annual honorarium.

The President and CEO, and each of the four other senior officers of the Company earned variable compensation during the year. The Company's Total Compensation Program does not include guaranteed bonuses or deferred compensation payments. Variable compensation is earned during the year and paid in cash in the following year. Directors do not participate in any variable compensation programs.

The components of total compensation received by key Management personnel (including amounts paid by the Parent)[(a)], and balances due to/from key Management personnel are as follows:

	2015	2014
Short-term employee benefits	$ 1,001,077	$ 936,615
Contributions to a group savings for retirement program	68,280	68,633
Variable compensation	191,357	112,305
Mortgage balances due from key management	217,497	247,305
Deposit balances due to key management	423,842	459,985

(a) The compensation reported is the total amount received by key management personnel, including both amounts allocated to the parent, and amounts allocated to the Company through the management agreement.

Short-term employee benefits include salaries, director remuneration and other benefits. The mortgage and deposit transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

Payments to Directors are as follows:

	2015	2014
Remuneration	$ 73,027	$ 70,150
Payments for reimbursement of expenses	36,132	37,972

13. Commitments and contractual obligations

a) Management fees

The Company has contracted with Atlantic Central for the provision of services under a Management Outsourcing Agreement (MOA). This agreement was effective January 1, 2013, has a term of five years, and renews automatically for successive five-year terms unless notice to terminate is provided by either party at least six months prior to the termination of the agreement (or any renewal thereof).

The fee for the services provided under the MOA is determined annually by mutual agreement between the Company and Atlantic Central based on the scope of services provided and market terms and conditions for such services.

b) Approved loans and mortgages

At December 31, 2015, the Company had approved mortgages in the amount of $16,045,228 (2014 – $8,069,449) which have not been advanced.

c) Rental of premises

As a result of the decision to close the LSM Sydney branch (Note 20), the Company completed negotiations in 2015 for the termination of the Sydney lease agreement. The costs to terminate the lease were charged to special projects in 2014 and were included in Accounts Payable and Accrued Liabilities at December 31, 2014.

14. Income taxes

The components of tax expense are as follows:

	2015	2014
Current tax expense		
Federal and provincial	$ 823,159	$ 524,125
Capital and Large Corporate Tax	270,000	354,100
	1,093,159	878,225
Deferred tax expense		
Origination and reversal of deductible temporary differences	8,383	49,259
Reduction in tax rate	(11,322)	(941)
	(2,939)	48,318
Total tax expense	$ 1,090,220	$ 926,543

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian Federal and Provincial statutory income tax rates to income before taxes. This difference results from the following:

	2015	2014
Income before income taxes	$ 2,949,846	$ 2,246,159
Statutory income tax rate	31.00%	30.26%
Expected income tax	914,452	679,688
Effect on income tax of:		
Non-taxable dividends	(2,025)	(2,281)
Permanent tax differences	3,668	3,199
Capital and Large Corporate Tax	186,300	246,963
Other	(12,175)	(1,026)
Total income tax expense	$ 1,090,220	$ 926,543

The components of the future income tax asset are as follows:

	Balance December 31, 2013	Recognized in: Net Income	OCI	Balance December 31, 2014	**Recognized in: Net Income**	**OCI**	**Balance December 31, 2015**
Deferred tax assets							
Property and equipment	$ 32,762	$ (2,018)	$ –	$ 30,744	$ (1,113)	$ –	$ 29,631
Allowance for impaired loans	476,109	(46,299)	–	429,810	4,047	–	433,857
Losses carried forward	148	–	–	148	7	–	155
Other	3	(1)	–	2	(2)	–	–
	$ 509,022	$ (48,318)	$ –	$ 460,704	$ 2,939	$ –	$ 463,643

15. Capital requirements

The Company manages its capital under guidelines established by the Office of the Superintendent of Financial Institutions (OSFI), which require the Company to maintain capital ratios that are adequate in relation to its levels of business activity. OSFI has issued its guidelines based on standards issued by the Bank for International Settlements, Basel Committee of Banking Supervisors (BCBS). OSFI has adopted capital guidelines based on the standards known as Basel II, which became effective for League Savings in 2008. Pillar 1 of the Basel II framework defines minimum capital requirements, while Pillar 2 addresses standards for the management of capital requirements.

Capital requirements are determined based on exposures to credit risk, operational risk, and for entities with significant trading activity, market risk. The standards provide different methodologies for the calculation of risk exposures based on a company's relative size and sophistication. The Company has implemented the Standardized Approach for credit risk, and the Basic Indicator Approach (BIA) for operational risk. The Company is not subject to the requirements for market risk.

Pillar 2 of the Basel II framework requires that institutions have a process in place to make an internal assessment of its overall capital position relative to its own unique circumstances and risk profile. This process, referred to as ICAAP, is approved by the Company's Board. The Company sets internal capital requirements that are calculated in accordance with the approved ICAAP. In particular, the Company's internal capital limits are adjusted based on an annual assessment of the Company's risk profile as identified in an Enterprise Risk Management framework. These internal limits provide for capital that is in excess of the regulatory minimums.

In December 2012, OSFI issued its revised guideline for Capital Adequacy Requirements, effective January 2013, based on the Basel II and Basel III framework. Under Basel III, there are three primary regulatory capital ratios used to assess capital adequacy, Common Equity Tier 1, Tier 1 and Total Capital ratios, which are determined by dividing those capital components by risk-weighted assets.

Basel III introduced a new category of capital, Common Equity Tier 1 (CET1), which consists primarily of common shareholders' equity net of regulatory adjustments. These regulatory adjustments include goodwill, intangible assets net of deferred tax liabilities, deferred tax assets that rely on future profitability, defined-benefit pension fund net assets, shortfall of credit provision to expected losses and investments in other financial institutions over certain thresholds.

In addition, new or revised capital components included in common equity are unrealized losses on securities and reduced amounts for non-controlling interests. Transitional requirements result in a five-year phase-in of new deductions and additional capital components to common equity.

OSFI's Basel III capital requirements include rules to implement the BCBS guidance on non-viability contingent capital (NVCC). The NVCC rules require that all capital instruments include loss absorption features. The Subordinate Debentures and Preferred Shares issued by League Savings are considered non-qualifying capital instruments under the Basel III NVCC rules and are therefore subject to a 10% phase-out per year beginning in 2013.

As of January 2019, under the BCBS rules League Savings will be required to meet new minimum requirements of: Common Equity Tier 1 ratio of 4.5% plus a capital conservation buffer of 2.5%, collectively 7%. Including the capital conservation buffer, the minimum Tier 1 ratio will be 8.5%, and the Total Capital ratio will be 10.5%.

OSFI required Canadian deposit-taking institutions to fully implement the 2019 Basel III reforms in 2013, without the transitional phase-in provisions for capital deductions (referred to as "all-in"), and achieve a minimum 7% common equity target, by the first quarter of 2013.

In January 2014, the BCBS released its final paper on "Basel III leverage ratio framework and disclosure requirement," which introduced a simpler, non risk-based Leverage ratio requirement to act as a supplementary measure to its risk-based capital requirements. The Leverage ratio is defined as a ratio of Basel III Tier 1 capital to a Leverage exposure measure which includes on-balance sheet assets and off-balance sheet commitments, derivatives and securities financing.

On October 30, 2014, OSFI issued its final "Leverage Requirements (LR) Guideline," which replaced the existing OSFI assets-to-capital multiple (ACM) with the Basel leverage ratio beginning in January 2015. The regulatory minimum leverage ratio is 3%. Institutions are expected to maintain an operating buffer above the 3% minimum.

The BCBS has published a number of proposals for changes to the existing risk-based capital requirements, and continues to do so with the objective of clarifying and increasing the capital requirements for certain business activities. The BCBS continues to review operational risk capital frameworks to provide an optimal balance between simplicity, comparability, and risk sensitivity. After further consultation with industry participants, BCBS is also considering a new standardized approach which would potentially affect current methods used to calculate operational risk capital. The Company will continue to monitor developments in these areas.

Capital ratios are monitored regularly and reported to the Board quarterly. The Capital Management Plan, which forecasts capital requirements and includes contingency plans in the event of unanticipated changes, is reviewed by the Board annually.

Details of the Company's regulatory capital at December 31 were as follows:

	2015	2014
Risk-weighted assets for:		
Credit risk	$ 122,138,000	$ 115,950,000
Operational risk	17,788,000	21,038,000
Total	$ 139,926,000	$ 136,988,000
Capital elements:		
Common shares	$ 2,110,000	$ 2,110,000
Contributed surplus	1,786,000	1,786,000
Unrealized gain on AFS investments	317,000	277,000
Retained earnings	17,417,000	15,981,000
Common Equity Tier 1	21,630,000	20,154,000
Preferred shares	9,791,000	11,190,000
Total Tier 1	31,421,000	31,344,000
Subordinated debentures	4,971,000	5,682,000
Tier 2 capital	4,971,000	5,682,000
Total regulatory capital	$ 36,392,000	$ 37,026,000
Ratios:		
Common Equity Tier 1	15.46%	14.71%
Total Tier 1	22.46%	22.88%
Total capital	26.01%	27.03%
Leverage Ratio	6.72%	n/a
Assets to capital multiple	n/a	11.19
OSFI targets[(a)]:		
Common Equity Tier 1	7.00%	7.00%
Total Tier 1	8.50%	8.50%
Total capital	10.50%	10.50%
Leverage Ratio	4.00%	n/a
Assets to capital multiple	n/a	20

(a) New OSFI targets, including a new Common Equity Tier 1 target of 7%, were effective January 1, 2013. The new Leverage Ratio came into effect on January 1, 2015.

The Company's capital ratios have been in compliance with the regulatory requirements throughout the year.

16. Credit facilities

The Company has established an unsecured operating line of credit with Atlantic Central, bearing interest at prime, up to an amount of $20,000,000. At December 31, 2015, the amount outstanding on this facility was nil (2014 – $1,006,401). The Company has also established a line of credit with Central 1 secured by an assignment of residential mortgages, bearing interest at prime, up to an amount of $25,000,000. At December 31, 2015, and 2014 the amount outstanding on this facility was nil.

17. Deposits

	2015	2014
Registered	$ 8,078,985	$ 7,656,438
Other demand	8,124,730	7,645,143
Total demand deposits	16,203,715	15,301,581
Registered	155,269,073	168,992,365
Other term	197,644,195	198,099,302
Total term deposits	352,913,268	367,091,667
	$ 369,116,983	$ 382,393,248

18. Assets under administration

Assets under administration include mortgages under administration, which are not the property of the Company and are not reflected in the balance sheet. At December 31, the Company had assets under administration as follows:

	2015	2014
Mortgages under administration	$ 110,913,726	$ 102,355,607

19. Non-interest income (expense)

Non-interest income (expense) includes the following:

	2015	2014
Lending services fees	$ 1,920,338	$ 1,215,600
Lending services expenses	(1,397,411)	(1,326,643)
Investment services fees	41,825	35,776
Investment services expenses	(521,000)	(483,978)
Other	23,013	31,939
	$ 66,765	$ (527,306)

The expenses detailed above include direct expenses only. Salary and staff related costs, and other indirect costs required to provide these services, are reported in operating expenses.

20. Special projects

In 2014 Management made a number of changes to the organizational structure of the Company to better align our resources to deliver on the strategies set out in the joint three-year Strategic Plan approved by the Boards of Central and League Savings. The changes will allow the Company to better serve the needs of our credit union partners, and enhance our ability to lead transformational change within the Central, League Savings, and the credit union system. These changes included the decision to close the Sydney and Riverview branches of League Savings. The costs relating to the restructuring are included in special projects.

Total spending on special projects is as follows:

	2015	2014
Severance and staff related	$ –	$ 446,558
Premises and other restructuring costs	–	146,850
	–	593,408

CORPORATE GOVERNANCE

Sound governance and ethical behaviour begins with our Board of Directors, which is accountable to our shareholders and assumes responsibility for the stewardship of League Savings and Mortgage Company (League Savings). The Board of Directors is responsible for overseeing the management of the business and affairs of League Savings with an objective of enhancing stakeholder value. Among its many specific duties, the Board of Directors approves strategic goals and business plans, sets policy to direct the overall operations of League Savings, provides advice, counsel and oversight to the President and CEO, oversees the ethical, legal and social conduct of League Savings, oversees the risk management of League Savings, and reviews League Savings' ongoing financial performance. The Board of Directors ensures that appropriate structures and procedures are in place to ensure its independence from Management.

BOARD COMPOSITION

The Board of Directors of League Savings consists of eleven Directors as follows:

(i) One Director elected at-large by the Preferred A shareholders located in New Brunswick;
(ii) One Director elected at-large by the Preferred A shareholders located in Newfoundland and Labrador;
(iii) One Director elected at-large by the Preferred A shareholders located in Nova Scotia;
(iv) One Director elected at-large by the Preferred A shareholders located in Prince Edward Island;
(v) One Director elected at-large by the Preferred A Shareholders; and
(vi) Six Directors appointed by the sole Common Shareholder, League Savings' parent, Atlantic Central (Central).

The following individuals currently serve on the Board of Directors:

- Raymond Surette, Chair
- Ken Shea, Vice-Chair
- Tammy Christopher
- Doug Dewling
- Pat Duffield
- Dan Honnor (resigned in December)
- Michael MacIsaac
- Sarah Millar
- Gary O'Brien
- Charles Parker
- Willy Robinson

The Board and each Committee meets at least once each fiscal quarter and holds an annual strategic planning session. The Board meets at other times when matters requiring its approval or consideration are raised and it is not possible or prudent to wait for the next regularly scheduled meeting. The Board of Directors met nine times in 2015.

COMMITTEES OF THE BOARD

The Board has established the following standing Committees: Executive; Audit; Risk; Conduct Review; Governance; and Co-operative Social Responsibility.

COMMITTEE MEMBERS
Raymond Surette (Chair), Ken Shea, and Tammy Christopher

Executive Committee

Its three members include the Board Chair and Vice-Chair and one Director elected at-large by the Board as a whole. This Committee is responsible for addressing matters between scheduled Board meetings that require immediate attention, and for approving credit applications that are above management lending limits.

COMMITTEE MEMBERS
Doug Dewling (Chair), Tammy Christopher, Michael MacIsaac and Willy Robinson

Audit, Risk and Conduct Review Committees

The Committees shall not consist of any employees or officers of League Savings or Central. The Audit Committee is responsible to ensure that Management has designed and implemented an effective system of financial management and related internal controls. It also reviews and reports on the audited financial statements and ensures compliance with certain regulatory and statutory requirements. It is also responsible to meet periodically with internal and external auditors. The Risk Committee is responsible for ensuring that Management has developed and maintained an effective Enterprise Risk Management Framework for evaluating the business strategies being used for the allocation of human, capital and other resources. The Conduct Review Committee is responsible for ensuring that League Savings has developed and adheres to ethical standards and sound business conduct in such areas as conflict of interest and related party procedures.

Governance Committee

The Committee shall consist of at least four Directors. The Governance Committee is responsible for reviewing and recommending changes, as appropriate, to the governance structure of League Savings and for ensuring that an effective governance system is in place including a schedule for regular policy review and compliance. In addition, this Committee ensures Board decisions and positions are appropriately translated into documented policies. Policies developed by the Committee are forwarded to the Board for its consideration and approval. The Committee oversees the procedures for nominating Directors for the League Savings Board of Directors. The Committee is responsible for overseeing the Director evaluation process, and for establishing and monitoring the orientation program for new Directors, as well as the monitoring of ongoing training and development of Board members.

COMMITTEE MEMBERS
Charles Parker (Chair), Willy Robinson, Ken Shea, and Raymond Surette

Co-operative Social Responsibility Committee

The Joint Central and League Savings Co-operative Social Responsibility (CSR) Committee is comprised of at least one Director from each of Central and League Savings and representation from each of the Atlantic provinces. The CSR Committee shall develop and support clear and precise policy statements for consideration by the Board that help define our belief in social well-being and sustainability. The Committee shall recommend priorities for charitable giving and awards and recognition programs to the Board and provide related oversight to these priorities and programs. In addition, the Committee shall ensure sustainability and environmental impacts are considered in the management of premises and operations.

COMMITTEE MEMBERS
Gary O'Brien (Chair), Doug Dewling, Pat Duffield, Sarah Millar, Bernard Keefe and William Timmons


Raymond Surette, Chair


Ken Shea, Vice-Chair


Tammy Christopher


Doug Dewling


Pat Duffield


Dan Honnor
(resigned in December)


Michael MacIsaac


Sarah Millar


Gary O'Brien


Charles Parker


Willy Robinson

MANDATE OF THE BOARD OF DIRECTORS

While the Board's fundamental responsibility is to oversee the management of the business and affairs of League Savings, any responsibility that is not specifically delegated to the President and CEO remains with the Board. In particular, the Board oversees League Savings' strategic direction to ensure it serves the organization, its member credit unions, employees and communities of New Brunswick, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island. The Board assumes overall stewardship with respect to League Savings' mission and values, its long-term objectives and the approval of corporate strategies. Specifically, the Board is responsible for the following:

- the evaluation of the President and CEO;
- establishing and approving Board policies;
- overseeing League Savings' internal control framework;
- developing and approving strategic goals and business plans for League Savings;
- providing advice to the President and CEO;
- evaluating the Board's performance and overseeing the ethical, legal and social conduct of the organization; and
- reviewing the financial performance and condition of the organization.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The Board of Directors recognizes the importance of each individual Director's participation at Board and Committee meetings. Every Director is expected to attend all Board and Committee meetings unless adequate cause is given for missing a meeting. The following table sets out the attendance of each Board member at Board and Committee meetings throughout 2015:

Name	Board and Planning Session	Co-operative Social Responsibility Committee	Audit, Risk & Conduct Review Committees	Executive Committee	Governance Committee
Raymond Surette*	9/9			4/4	3/3
Ken Shea*	8/9			5/5	4/4
Tammy Christopher	9/9		5/5	5/5	
Doug Dewling	9/9	4/4	5/5		
Pat Duffield	8/9	3/4			
Dan Honnor	8/9		5/5		
Michael MacIsaac	6/9		2/4		
Sarah Millar	8/9	3/4			
Gary O'Brien	7/8	3/4			
Charles Parker	8/9				4/4
Willy Robinson	8/8				3/3

* Table Officer

BOARD EVALUATIONS

As part of its commitment to ongoing development and improvement, the Board of Directors conducts an annual self-evaluation. This evaluates the Board's effectiveness in the following governance areas: League Savings' mission and vision; strategic leadership; financial performance; internal controls and oversight, including financial oversight, risk oversight, and human resources oversight; co-operative social responsibility; compliance and accountability; stakeholder relations; Board functioning and Board and Management relations; and learning and development. The results of the evaluation are used to guide the training and development agenda for the Board in the upcoming year.

EVOLVING GOVERNANCE PRACTICES

At League Savings, we recognize that our governance standards must not only evolve to respond to changes in our organization, the credit union system, stakeholder expectations and regulatory requirements, but also to ensure that League Savings and its stakeholders receive the benefit of exceptional governance practices. The Board and Management continually monitor developments in corporate governance practices and are committed to ongoing training and development to ensure that League Savings continues to lead the credit union system with its governance practices.

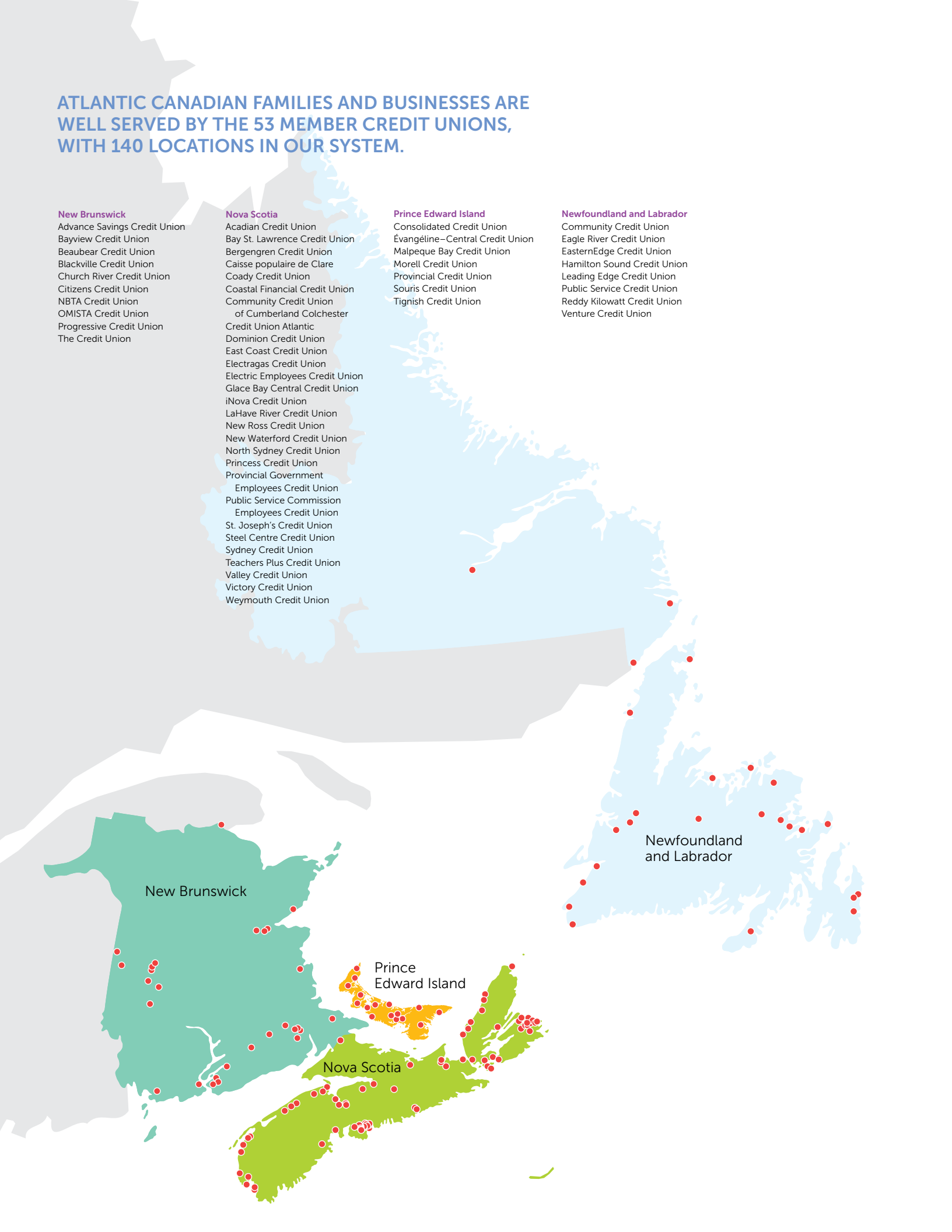
ATLANTIC CANADIAN FAMILIES AND BUSINESSES ARE WELL SERVED BY THE 53 MEMBER CREDIT UNIONS, WITH 140 LOCATIONS IN OUR SYSTEM.

New Brunswick
Advance Savings Credit Union
Bayview Credit Union
Beaubear Credit Union
Blackville Credit Union
Church River Credit Union
Citizens Credit Union
NBTA Credit Union
OMISTA Credit Union
Progressive Credit Union
The Credit Union

Nova Scotia
Acadian Credit Union
Bay St. Lawrence Credit Union
Bergengren Credit Union
Caisse populaire de Clare
Coady Credit Union
Coastal Financial Credit Union
Community Credit Union of Cumberland Colchester
Credit Union Atlantic
Dominion Credit Union
East Coast Credit Union
Electragas Credit Union
Electric Employees Credit Union
Glace Bay Central Credit Union
iNova Credit Union
LaHave River Credit Union
New Ross Credit Union
New Waterford Credit Union
North Sydney Credit Union
Princess Credit Union
Provincial Government Employees Credit Union
Public Service Commission Employees Credit Union
St. Joseph's Credit Union
Steel Centre Credit Union
Sydney Credit Union
Teachers Plus Credit Union
Valley Credit Union
Victory Credit Union
Weymouth Credit Union

Prince Edward Island
Consolidated Credit Union
Évangéline–Central Credit Union
Malpeque Bay Credit Union
Morell Credit Union
Provincial Credit Union
Souris Credit Union
Tignish Credit Union

Newfoundland and Labrador
Community Credit Union
Eagle River Credit Union
EasternEdge Credit Union
Hamilton Sound Credit Union
Leading Edge Credit Union
Public Service Credit Union
Reddy Kilowatt Credit Union
Venture Credit Union



LEAGUE SAVINGS
AND MORTGAGE
A Credit Union Company

League Savings and Mortgage serving credit unions in:

New Brunswick
Newfoundland and Labrador
Nova Scotia
Prince Edward Island

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