LEAGUE SAVINGS AND MORTGAGE

A Credit Union Company

2011 **Annual Report**

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Printing and Assembly: Printing & Supplies

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Vision, Mission and Values

Vision

To be a superior credit union service partner in Atlantic Canada.

We will:

- Develop specialized products and services that assist credit unions in expanding their service capabilities
- Facilitate financial services that credit unions may not pursue on their own
- Be a centre of knowledge and excellence, within our field of services, for credit unions

Mission

To provide financial services to credit unions, their members and others to enhance credit union capability and success.

Values

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 to enhance our contributions for the well-being of our stakeholders and the communities we serve.

Message from the Board of Directors

Jim MacFarlane

League Savings and Mortgage takes credit unions farther

In 2011, League Savings and Mortgage Company took a bleak forecast and turned it into a good year, culminating in an unanticipated special distribution to credit unions of $1 million. Further details about League Savings' $2,911,755 in returns to credit unions (in addition to dividends on share capital and bonus payments on subordinated debentures) can be found in President & CEO Bernie O'Neil's message.

Our commitment to our strategic partnerships with credit unions made this happen. In planning our approach to 2011, we explored, "What does success look like to credit unions?" and then sought to describe the role League Savings can play in achieving this. The relationship management strategy we've been pursuing in recent years is maturing well. We have found that more credit union CEOs and general managers are expressing appreciation for the company and its role in supporting and helping credit unions and the system develop. In addition, we've focused time and energy on building awareness among credit union boards of League Savings' services and the opportunities we offer credit unions.

League Savings pursues a somewhat conservative approach, but the results are telling: we were able to provide a good return. As system partners working with Concentra Financial, credit unions, and others, trying to keep members focused on supporting our system, it can be difficult to achieve high returns. League Savings' marvelous staff and great management team have been key in developing creative solutions to help credit unions assist their members, as well as producing returns. It is through their work promoting loyalty and being helpful that the relationship management strategy works.

This year saw the board undertake strategic planning in Newfoundland and Labrador. While you might think one meeting room is much like another, a change of locations made a significant difference in the perspective of participants. As well, a new facilitator afforded the board some good strategic insight.

The board completed a by-law review and has implemented a regular five year review cycle. This will ensure timely, proactive governance to keep League Savings on track with its goals. A competency framework for directors is now in place to help identify areas where the board could be strengthened. We continue to seek ways to demonstrate responsible governance in solidarity with our partner credit unions.

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In 2011, the board supported pursuit of a Regional Mortgage Strategy. A committed group of credit union representatives assembled and have met several times, in person and electronically, to begin to address barriers to a regional strategy. A preliminary vision was developed, "whereby we would be able to promote that all credit unions in Atlantic Canada have access to a competitive suite of mortgage products (offered either through the credit union or via League Savings)." How this strategy will develop will depend on the appetite of credit unions for its proposed solutions.

Our ties to Atlantic Central have been further strengthened in this year, following the business combination of three centrals that now allows both companies to focus on one common set of stakeholders.

Looking ahead, League Savings continues to explore new directions, goals, and new business developments, including mortgage and other finance pooling, and opportunities to leverage those pools. System growth remains a key goal, and we are committed to doing what it takes to make that happen.

The Board of League Savings and Mortgage plans to emerge from 2012 building a strong vision for the future. We will ensure that League Savings continues to play a key and integral role to grow the Atlantic credit union system.

There is an opportunity to evolve credit unions' access to liquidity and capital resources to meet members' expanding needs. League Savings can and must play a vital role in providing financing options that are currently not available to credit unions.

Despite a bleak employment forecast recently released by Stats Canada, League Savings is looking for a great 2012. There's room for growth, and League Savings has the appetite to get there.

Jim MacFarlane,
Chair of the Board

Message from the President & Chief Executive Officer

Bernie O'Neil

League Savings and Mortgage Company continues to work hard to cement our partnerships with credit unions. The entire system is strengthened when credit unions take advantage of the extended resources of League Savings to satisfy member needs they would otherwise not be able to.

Thanks to these partnerships, League Savings has enjoyed a very good year financially, especially given the challenging economic environment and increased regulatory capital requirements. While this year began with a bleak forecast, it did end with League Savings being able to provide a special distribution to credit unions of $1 million. As always we must caution credit unions that while such distributions are welcomed, they are not guaranteed. The economy remains uncertain and that is unlikely to change in the near future.

First, we were pleased to send over $15M in business to credit unions, through 144 business referrals in 2011.

Looking at the business we did with credit unions, we had excellent results. The total of our 2011 payments to credit unions was $3,703,113.

In 2011, League Savings paid credit unions a total of $582,600 in referral fees for mortgages and deposits referred to League Savings, based on market competitive rates. We paid a further $1,329,155 to credit unions as a distribution of earnings based on total portfolios maintained at League Savings. Additionally, the Board approved a 3% dividend on share capital, and a bonus payment of 1.5% on subordinated debentures, bringing the total rate paid on the subordinated debentures to 6%. The Board also approved a special distribution to credit unions of $1 million.

Finally, the board of Atlantic Central approved a liquidity rebate to be paid based on credit union deposits with Central and League Savings.

We are pleased to provide these distributions, but again, it is important for the sustainability and long-term profitability of the system that credit unions continue to leverage League Savings and Mortgage Company's products and services in creative ways to meet ever-growing member needs and expectations.

Atlantic Central

In many ways, despite the profound change wrought on our system by the creation of Atlantic Central, last year was business as usual for League Savings and Mortgage. Although not directly affected for the most part, staff were surrounded by an atmosphere of change and upheaval, and their ability to carry on as usual and provide the returns listed above, demonstrates their admirable poise and adaptability.

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Being able to bring the Moncton League Savings and Riverview Atlantic Central offices together under one roof demonstrated one of the more tangible ways the two companies are becoming more integrated. As both now serve a common set of stakeholders, we'll seek more ways to efficiently provide service in an integrated, packaged way.

Service to Credit Unions

The Credit Union Satisfaction Survey was conducted in December, 2011. League Savings and Mortgage has consistently scored 84% or higher since 2000. This year the average overall satisfaction rate was 84.2%. While still a good score, the drop this year was due to a noticeable drop in the satisfaction rating of our products and services, down from 82.9% in 2010 to 80% this year. Efforts will be made in 2012 to address this issue.

The CU Professional training series, a branded webinar-based training program, offered training to 608 registered participants through seven training events. In addition, League Savings was pleased to offer 89 separate individual credit union training sessions.

Our calls and networking activities remained of paramount importance in helping us maintain open communication lines with credit unions. In 2011, we made 75 personal visits to credit unions and 364 business development calls.

National Connections

League Savings and Mortgage staff serve on the National Lenders Committee as well as a CUCC Committee that is working to develop a relationship with the Business Development Corporation (BDC).

Future Plans

League Savings and Mortgage Company will continue to seek ways to uncover the needs, challenges and opportunities of and for credit unions, and ensure they have access to the best possible pricing for mortgages and deposits. We will continue to seek access to new opportunities through tools like pooling (as with mortgages) or representing groups of credit unions.

Giving Back and Thanks

League Savings proudly joined with Atlantic Central and League Data to demonstrate commitment to our cooperative values by giving back to the community in 2011. Employees volunteered time and donated money to support the United Way with over $18,000 being put back into local communities. They gave to the IWK, supported the Co-op Week and Credit Union Day food drive and donated blood as part of our Canadian Blood Services Partners for Life Program. They participated in a Dragon Boat race to raise funds for young athletes.

Thank you to League Savings Board Chair Jim MacFarlane and the rest of the Board members for their vision and direction for the company and placing trust in the management team's ability to execute your vision. I would like to thank the senior management for their continuous improvement efforts. And I'd like to thank all the employees who through several years of change have never lost focus of the needs of credit unions.

And finally, thank you to our partners, the Atlantic Canadian credit unions we serve, for working with us. We look forward to our relationship in 2012 and beyond.

Bernie O'Neil,
President & CEO

Management Discussion and Analysis

Risk Management

Risk management is one of the most important responsibilities of League Savings. Risk management objectives are reflected within the comprehensive risk management strategies and policies.

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.

League Savings has an enterprise-wide capability to recognize, understand, measure, assess and manage risks taken across the organization. Authority for all risk-taking activities rests with the Board of Directors, which approves risk management policies, delegates limits and regularly reviews management's risk assessments and compliance with approved policies. The Risk Committee of the Board 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 Audit Committee is responsible for overseeing all financial risk management policies.

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 the Company's financial assets and liabilities. ALCO achieves this by developing and implementing financial strategies and related processes consistent with the short and long terms goals set by the Board.

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

The risks are summarized into the following categories: capital adequacy, governance, credit, legal and regulatory, liquidity, market, operational and strategic.

Photo from left:
Sharon Arnold, SVP of Finance;
Michael Leonard, SVP of Operations;
Bernie O'Neil, President & CEO;
Rick Parker, SVP of Corporate Services.

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 which 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 which forecasts the amount of capital required throughout the year 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 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 the nomination and election process, orientation program, ongoing development and training, regular Board and committee meetings, the annual strategic planning process and an annual evaluation process.

Credit Risk
Credit risk is the potential for loss due to the failure of a borrower, endorser or guarantor to fulfill its payment obligation.

The company has established policies and procedures for credit risk management. Credit policies are reviewed and approved annually by the Board of Directors. 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. In addition to considering loan type and amount in setting approval limits, loans with higher risk require more intensive analysis and higher levels of approval. The Credit Committee of the Board of Directors reviews all loans above the lending limits of management.

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Procedures are in place governing credit activities including:

- Application of stringent underwriting criteria
- The use of qualified personnel and the clear delegation of decision-making authority
- Portfolio diversification to mitigate credit exposure by establishing concentration limits

League Savings 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.

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

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 incorporated under the Trust and Loan Companies Act (Canada) and regulated by the Office of the Superintendent of Financial Institutions (OSFI). 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 issues are 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.

Liquidity Risk
Liquidity risk is the risk of being unable to meet financial commitments without having to raise funds at unreasonable prices or sell assets on a forced basis.

League Savings has established policies to ensure the company 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 of Directors.

League Savings' 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
- Stress testing and contingency planning

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 of Directors, which are formally reviewed and approved annually. League Savings 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. League Savings' interest rate risk policies include limits on the allowable variation in forecasted financial margins due to interest rate changes. League Savings 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 risk exposures.

The company measures interest rate risk through gap and income simulation analysis on a quarterly basis. Gap analysis measures the difference between the amount of assets and liabilities re-pricing in specific time periods. Income simulation models are used to measure interest rate risk 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 illustrated in the table below.

Earnings at risk over the next 12 months as at December 31, 2011:

(Dollars)	2011	2010
100 basis point increase	(364,000)	(412,000)
100 basis point decrease	337,000	388,000

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Management provides quarterly reports to the Board on interest rate risk.

Foreign exchange risk is the risk of loss caused by fluctuations in foreign exchange rates. League Savings is not exposed to foreign exchange risk as Board policy requires that all transactions be carried out in Canadian currency.

Equity and commodity risk is the potential impact on League Savings' earnings due to movements in equity and commodity prices. League Savings has no material business activities in equities or commodities, and is not exposed to material risk in these areas.

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 12-18 months 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 on the progress towards achieving the annual business plan at each regular Board meeting.

LEAGUE SAVINGS AND MORTGAGE COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 2011

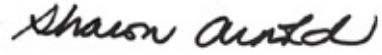
Management's Responsibility For Financial Statements

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 judgements and estimates in accordance with International Financial Reporting Standards.

In discharging its responsibility for the integrity and fairness of the financial statement, 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.

Grant Thornton 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.



Bernie O'Neil
President and CEO

Sharon Arnold, CA
Senior Vice-President Finance

Independent Auditors' Report

To the Shareholders of League Savings and Mortgage Company

We have audited the accompanying financial statements of League Savings & Mortgage Company ("League Savings"), which comprise the balance sheet as at December 31, 2011, the statements of comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the 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 League Savings' 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 League Savings' 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 & Mortgage Company Limited as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Comparative information

Without modifying our opinion, we draw attention to note 2 to the financial statements which describes that League Savings & Mortgage Company adopted International Financial Reporting Standards on January 1, 2011 with a transition date of January 1, 2010. These standards were applied retrospectively by management to the comparative information in these financial statements, including the balance sheets as at December 31, 2010 and January 1, 2010, and the statement of comprehensive income, statement of changes in shareholders' equity and cash flows for the year ended December 31, 2010 and related disclosures. We were not engaged to report on the restated comparative information, and as such, it is unaudited.

Grant Thornton LLP

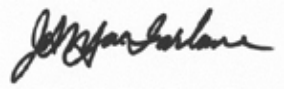
Grant Thornton LLP **February 20, 2012**

Chartered Accountants **Halifax, Canada**

Balance Sheet

December 31 (Cdn Dollars)	Note	2011	2010 (Unaudited)	January 1, 2010 (Unaudited)
Assets				
Cash and cash equivalents		**$ 22,744**	$ 17,637	$ 14,248
Investments	5	**26,557,131**	27,140,515	17,602,691
Loans and mortgages	6	**427,908,912**	451,985,294	450,025,630
Accrued interest		**1,320,396**	1,935,129	1,852,725
Fixed assets	7	**-**	74,873	111,866
Deferred tax asset	12	**534,728**	567,327	520,362
Other assets		**3,566,173**	1,713,118	787,622
		$ 459,910,084	$ 483,433,893	$ 470,915,144
Liabilities				
Borrowings	14	**$ 13,578,441**	$ 8,223,677	$ 3,044,729
Deposits	15	**398,632,390**	426,169,109	421,136,993
Accrued interest		**4,386,366**	4,889,332	5,633,066
Accounts payable and accrued		**4,056,517**	7,333,654	4,734,341
Income tax payable		**529,461**	-	46,253
Subordinated debentures	17	**7,102,000**	7,102,000	7,102,000
		428,285,175	453,717,772	441,697,382
Shareholders' equity				
Capital stock	8	**15,996,797**	15,996,797	15,996,797
Contributed surplus		**1,785,887**	1,785,887	1,785,887
Retained earnings		**13,145,404**	11,109,700	10,700,108
Accumulated other comprehensive income		**696,821**	823,737	734,970
		31,624,909	29,716,121	29,217,762
		$ 459,910,084	$ 483,433,893	$ 470,915,144
Commitments and contractual obligations	11			

Approved: **On Behalf of the Board:**



Bernie O'Neil
President and CEO

Jim MacFarlane
Chair

Doug Dewling
Director

See accompanying notes to the financial statements

Statement of Comprehensive Income

Year Ended December 31 (Cdn Dollars)	Note	2011	2010 (Unaudited)
Financial income			
Interest on investments		$ 1,012,093	$ 914,608
Interest on loans and mortgages		23,063,760	24,771,917
		24,075,853	25,686,525
Financial expense		11,745,098	12,902,243
Gross financial margin		12,330,755	12,784,282
Provision for loan losses (recovery)		(80,979)	287,924
Net financial margin		12,411,734	12,496,358
Other financial income		729,262	867,581
Net financial income		13,140,996	13,363,939
Other income	18	640,975	298,736
		13,781,971	13,662,675
Operating expenses			
Salaries and staff related		3,404,547	3,235,930
Employee benefits		503,808	468,694
Management fees		2,220,000	1,992,000
Office expense		850,206	870,150
Marketing and business development		64,186	63,762
Democracy		139,980	146,094
Professional fees		140,796	144,996
Other expenses		266,131	254,541
		7,589,654	7,176,167
Operating income		6,192,317	6,486,508
Distributions		2,329,156	4,999,570
Income before taxes		3,863,161	1,486,938
Taxes	12	1,392,855	642,744
Net income		$ 2,470,306	$ 844,194
Other comprehensive income (loss)			
Net change in unrealized gains (losses) on available for sale investments		(185,124)	132,320
Income taxes relating to other comprehensive income	12	58,208	(43,553)
		(126,916)	88,767
Comprehensive income		$ 2,343,390	$ 932,961

See accompanying notes to the financial statements

Statement of Changes in Shareholders' Equity

Year Ended December 31, 2011 (Cdn Dollars)	**Common Shares**	**Preferred Shares**	**Contributed Surplus**	**Accumulated other comprehensive income**	**Retained earnings**	**Total Equity**
Balance at beginning of year	**$ 500,000**	**$ 15,496,797**	**$ 1,785,887**	**$ 823,737**	**$ 11,109,700**	**$ 29,716,121**
Net Income					2,470,306	**2,470,306**
Other comprhensive income (loss)				(126,916)		**(126,916)**
Comprehensive income	-	-	-	(126,916)	2,470,306	**2,343,390**
Shares issued						-
Shares redeemed						-
Dividends					(434,602)	**(434,602)**
Balance at end of year	**$ 500,000**	**$ 15,496,797**	**$ 1,785,887**	**696,821**	**$ 13,145,404**	**$ 31,624,909**

Year Ended December 31, 2010 (Cdn Dollars)	**Common Shares**	**Preferred Shares**	**Contributed Surplus**	**Accumulated other comprehensive income**	**Retained earnings**	**Total Equity**
(Unaudited)						
Balance at beginning of year	$ 500,000	$ 15,496,797	$ 1,785,887	$ 734,970	$ 10,700,108	$ 29,217,762
Net Income					844,194	844,194
Other comprhensive income				88,767		88,767
Comprehensive income	-	-	-	88,767	844,194	932,961
Shares issued						-
Shares redeemed						-
Dividends					(434,602)	(434,602)
Balance at end of year	$ 500,000	$ 15,496,797	$ 1,785,887	$ 823,737	$ 11,109,700	$ 29,716,121

See accompanying notes to the financial statements

Statement of Cash Flows

Year Ended December 31 (Cdn Dollars)		2011		2010 (Unaudited)
Increase (decrease) in cash and cash equivalents				
Operating activities				
Income before taxes	$	**3,863,161**	$	1,486,938
Adjustments:				
Loans and mortgages, net		**24,076,382**		(1,959,664)
Deposits, net		**(27,536,719)**		5,032,116
Depreciation		**36,992**		36,992
Interest receivable/payable, net		**111,767**		(826,138)
Taxes paid, net of refunds		**(634,256)**		(954,578)
Other items, net		**(5,453,647)**		1,981,201
		(5,536,320)		4,796,867
Financing activities				
Dividends paid		**(434,602)**		(434,602)
		(434,602)		(434,602)
Investing activities				
Investments, net		**583,384**		(9,537,824)
Fixed assets, net		**37,881**		-
		621,265		(9,537,824)
Net decrease in cash and cash equivalents		**(5,349,657)**		(5,175,559)
Cash and cash equivalents (net)				
Beginning of year		**(8,206,040)**		(3,030,481)
End of year	$	**(13,555,697)**	$	(8,206,040)
Includes:				
Cash on hand and balances with Central	$	**22,744**	$	17,637
Borrowings		**(13,578,441)**		(8,223,677)
	$	**(13,555,697)**	$	(8,206,040)
Supplemental disclosure of cash flow information:				
Interest received	$	**24,683,531**	$	25,597,821
Dividends received		**7,055**		6,300
Interest paid		**12,248,064**		13,645,977

See accompanying notes to the financial statements

1. Reporting entity

League Savings and Mortgage Company ("the Company") is incorporated in Canada under the Federal Trust and Loan Company 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, and the Company also operates out of offices in Sydney, Nova Scotia, Riverview, New Brunswick and Charlottetown, Prince Edward Island. The Company provides financial services to credit unions, their members, and others.

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

2. Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These are the Company's first financial statements prepared in accordance with IFRS. The principal accounting policies applied in the preparation of the financial statements are set out in Note 3. The Company has applied *IFRS 1 - First-time Adoption of International Financial Reporting Standards* in preparing these first IFRS financial statements. An explanation of the impact of the transition to IFRS is provided in Note 19. The financial statements have been prepared on the historical cost basis except for certain financial instruments as indicated in Note 3.

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 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 that have the most significant effect on the amounts recognized in the financial statements are with respect to the allowance for loan losses, as detailed in Note 3.

The financial statements were authorized for issue by the Board of Directors on February 20, 2012

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). 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.

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	Cash and cash equivalents
AFS	Investments
L&R	Loans and mortgages and accrued interest
OFL	Borrowings, deposits, accrued interest, accounts payable and accrued and subordinated debentures

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. Except as noted below, investments are reported at market value with any unrealized gains or losses reported in OCI.

Certain investments in Co-operative partners are reported at cost, as fair value cannot be reliably measured.

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 judgement 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.

The collective allowance is determined based on management's judgement 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.

Real estate held for resale is carried at the market value of the loan or mortgage foreclosed, adjusted for estimates of revenues to be received and costs to be incurred subsequent to foreclosure, and the estimated net proceeds from the sale of the assets.

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, and the loans sold by the subsidiary are derecognized, and the loans purchased are recognized, on the date of the transfer.

Mortgage securitization

The Company periodically securitizes mortgages by selling mortgages to special-purpose vehicles or trusts that in turn issue securities to investors. These transactions are accounted for as sales when the significant risks and rewards of ownership have been transferred and there is reasonable assurance regarding the measurement of the consideration derived from the sale. No gain or loss on the initial sale has been recorded by the Company as a result of these transactions.

Fees earned to service the securitized mortgages are recognized as services are provided and reported in earnings as other income.

The Securitization Agreement provides for the payment to the Company of the deferred proceeds of sale when the interest collected from borrowers exceeds the yield paid to investors on the assets, credit losses, and other costs.

Fixed assets

Fixed assets are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. The useful life and residual value of fixed assets are reviewed at least annually. Depreciation rates are as follows:

Leasehold improvements	2-10%
Furniture and equipment	20-33%

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.

Revenue and expense recognition

Except as described below, 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 principle 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.

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 as other 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.

Employee Benefits

Short-term employee benefits include salaries and wages, compensated absences, medical and dental plans, and variable compensation. The Company also contributes on behalf of employees to a Group Savings for Retirement Program and to life and long-term disability insurance plans. Under these defined contribution programs the company pays fixed contributions to an independent entity and has no legal or constructive obligation to pay further contributions. These costs are expensed as the related service is provided, and are reported in income as employee benefits.

Changes in accounting standards

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2011 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 November 2009, the IASB issued *IFRS 9 – Financial Instruments*, introducing new requirements for classifying and measuring financial assets. This new standard replaces the requirements in *IAS 39 – Financial Instruments: Recognition and Measurement* for classification and measurement of financial assets. IFRS 9 is the first part of a multi-phase project to replace IAS 39. The main features of the new standard are:

- A financial asset will be classified as either fair value or amortized cost. The available-for-sale, held-to-maturity and loans and receivables categories will no longer exist.
- Classification of financial assets is based on the entity's business model for managing the financial asset and their contractual cash flow characteristics.
- Changes in the fair value of financial assets classified as fair value are recognized in profit or loss, except for equity investments not held for trading, which may be held at fair value through other comprehensive income.

IFRS 9 is effective for fiscal years beginning on or after January 1, 2013. Earlier application is permitted. The impact of IRFS 9 on the Company has not yet been determined.

Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted for 2011. The comparative figures in the notes to financial statements are unaudited.

4. Risk management

The Company has an enterprise-wide approach to the identification, measurement, monitoring and management of risks faced across the organization. Authority for all risk-taking activities rests with the Board of Directors (Board), which approves 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, assessed and controlled. Internal Audit reports independently to the Audit, Risk & Conduct Review Committee of the Board on the effectiveness of the risk management policies and the extent to which internal controls are in place and operating effectively.

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

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.

The Company has established policies and procedures for credit risk management. 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 residential and non-residential loans are risk rated at the time of approval, and thereafter the risk rating of non-residential loans are updated as part of an annual review process. 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.

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

Liquidity Risk

Liquidity risk is the risk of being unable to meet financial commitments without having to raise funds at unreasonable prices or sell assets on a forced basis. The Company has established policies to ensure the Company 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

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 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:

	2011	2010
100 basis point increase	**(364,000)**	(412,000)
100 basis point decrease	**337,000**	388,000

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.

5. Investments

	2011 Cost	**2011 Market Value**	2010 Cost	2010 Market Value
Government debt	**$ 2,094,354**	**$ 2,200,060**	$ 2,360,977	$ 2,899,710
Corporate debt	**15,991,497**	**16,453,009**	16,222,621	16,606,190
Co-operative deposits	**7,329,777**	**7,734,737**	7,230,290	7,473,740
Co-operative securities	**4,125**	**4,125**	4,125	4,125
Corporate shares	**50,000**	**165,200**	50,000	156,750
	$ 25,469,753	**$ 26,557,131**	$ 25,868,013	$ 27,140,515

6. Loans and mortgages

	Total Loans	Impaired Loans	Total Allowance	Specific Allowance (included in total allowance)	Net Loans
2011					
Residential insured	**$ 327,100,692**	**$ -**	**$ 187,503**	**$ -**	**$ 326,913,189**
Residential uninsured	**125,137,728**	**248,315**	**451,097**	**17,099**	**124,686,631**
Non-residential	**65,544,204**	**1,353,435**	**1,283,627**	**267,285**	**64,260,577**
Real estate held for sale	**771,618**	**-**	**-**	**-**	**771,618**
	518,554,242	**1,601,750**	**1,922,227**	**284,384**	**516,632,015**
Less: under administration:					
Residential insured	**76,703,752**	**-**	**-**	**-**	**76,703,752**
Residential uninsured	**8,353,851**	**-**	**-**	**-**	**8,353,851**
Non-residential	**3,665,500**	**-**	**-**	**-**	**3,665,500**
	88,723,103	**-**	**-**	**-**	**88,723,103**
	$ 429,831,139	**$ 1,601,750**	**$ 1,922,227**	**$ 284,384**	**$ 427,908,912**
2010					
Residential insured	$ 326,874,629	$ -	$ 465,384	$ -	$ 326,409,245
Residential uninsured	130,430,639	141,827	470,845	9,283	129,959,794
Non-residential	65,741,102	1,128,953	1,066,977	305,866	64,674,125
Real estate held for sale	819,943	-	-	-	819,943
	523,866,313	1,270,780	2,003,206	315,149	521,863,107
Less: under administration:					
Residential insured	60,194,925	-	-	-	60,194,925
Residential uninsured	5,030,492	-	-	-	5,030,492
Non-residential	4,652,396	-	-	-	4,652,396
	69,877,813	-	-	-	69,877,813
	$ 453,988,500	$ 1,270,780	$ 2,003,206	$ 315,149	$ 451,985,294

Continuity of allowance for loan losses	**2011**	2010
Allowance, beginning of year	**$ 2,003,206**	$ 1,590,648
Recoveries	**-**	124,634
Loan loss provisions	**(80,979)**	287,924
Allowance, end of year	**$ 1,922,227**	$ 2,003,206

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

	2011	2010
31 to 60 days	**$ 1,964,951**	$ 1,875,327
61 to 90 days	**639,495**	137,894
91 to 120 days	**681,540**	1,201,647
over 120 days	**580,114**	33,457
	$ 3,866,100	$ 3,248,325

7. Fixed assets

2011	Leasehold Improvements	Furniture and Equipment	Total
Gross carrying amount			
Balance at January 1	$ 34,200	$ 111,362	$ 145,562
Additions	-	-	-
Disposals	(34,200)	(111,362)	(145,562)
Balance at December 31	-	-	-
Accumulated Depreciation			
Balance at January 1	(10,545)	(60,144)	(70,689)
Disposals	13,965	93,716	107,681
Depreciation	(3,420)	(33,572)	(36,992)
Balance at December 31	-	-	-
Carrying amount December 31	**$ -**	**$ -**	**$ -**
2010			
Gross carrying amount			
Balance at January 1	$ 34,200	$ 111,362	$ 145,562
Additions	-	-	-
Disposals	-	-	-
Balance at December 31	34,200	111,362	145,562
Accumulated Depreciation			
Balance at January 1	(7,125)	(26,572)	(33,697)
Disposals	-	-	-
Depreciation	(3,420)	(33,572)	(36,992)
Balance at December 31	(10,545)	(60,144)	(70,689)
Carrying amount December 31	**$ 23,655**	**$ 51,218**	**$ 74,873**

8. Capital stock

Authorized capital stock, and the amounts outstanding, are as follows:

	Authorized	2011	2010
Common shares, no par value, voting.	Unlimited	**$ 500,000**	$ 500,000
Class A Preferred shares, no par value, non-cumulative, redeemable, non-retractable, voting.	Unlimted	**13,986,740**	13,986,740
Class B Preferred shares, no par value, non-cumulative, non-voting.	Unlimited	**1,510,057**	1,510,057
		$ 15,996,797	$ 15,996,797

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 after the fifth anniversary of the date of issue, subject to OFSI approval.

9. 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
2011							%
Assets							
Cash and investments	$ 2,331	$ 4,482	$ 18,603	$ -	$ 1,164	$ 26,580	3.90
Loans	24,072	80,112	325,647	-	(1,922)	427,909	5.22
Other assets	-	-	-	-	5,421	5,421	
	$ 26,403	$ 84,594	$ 344,250	$ -	$ 4,663	$ 459,910	
Liabilities and equity							
Borrowings	$ 13,578	$ -	$ -	$ -	$ -	$ 13,578	3.00
Deposits							
Fixed	33,559	146,277	205,296	-	-	385,132	2.57
Variable	13,500	-	-	-	-	13,500	1.00
Other liabilities	-	-	-	-	8,973	8,973	
Equity and subordinated debentures	-	-	-	-	38,727	38,727	
	$ 60,637	$ 146,277	$ 205,296	$ -	$ 47,700	$ 459,910	
Subtotal	$ (34,234)	$ (61,683)	$ 138,954	$ -	$ (43,037)	$ -	
Prepayment estimate	12,212	36,635	(48,847)	-	-	-	
Excess (deficiency)	$ (22,022)	$ (25,048)	$ 90,107	$ -	$ (43,037)	$ -	

	Within 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Non-interest Sensitive	Total	Average Rate
2010							%
Assets							
Cash and investments	$ 2,362	$ 2,119	$ 21,334	$ -	$ 1,344	$ 27,159	4.33
Loans	20,613	62,639	370,657	-	(1,924)	451,985	5.45
Other assets	-	-	-	-	4,290	4,290	
	$ 22,975	$ 64,758	$ 391,991	$ -	$ 3,710	$ 483,434	
Liabilities and equity							
Borrowings	$ 8,224	$ -	$ -	$ -	$ -	$ 8,224	3.00
Deposits							
Fixed	30,197	161,699	220,511	-	-	412,407	2.76
Variable	13,762	-	-	-	-	13,762	1.00
Other liabilities	-	-	-	-	12,223	12,223	
Equity and subordinated debentures	-	-	-	-	36,818	36,818	
	$ 52,183	$ 161,699	$ 220,511	$ -	$ 49,041	$ 483,434	
Subtotal	$ (29,208)	$ (96,941)	$ 171,480	$ -	$ (45,331)	$ -	
Prepayment estimate	13,900	41,699	(55,599)	-	-	-	
Excess (deficiency)	$ (15,308)	$ (55,242)	$ 115,881	$ -	$ (45,331)	$ -	

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. 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) 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 a financial instrument could be exchanged in an arm's length transaction between willing parties under no compulsion to act and 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 land, buildings and equipment. 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.
- 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 shares are valued using quoted market prices (Level 1); bonds and co-operative deposits are valued using market prices provided by 3rd party brokers (Level 2); and co-operative securities are carried at 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, and deposits, the fair value is calculated using a discounted cash flow model, based on weighted average interest rates and the term to maturity of the instrument. 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.

	2011 Cost	2011 Estimated Fair Value	2010 Cost	2010 Estimated Fair Value
Assets				
Cash and cash equivalents	$ 22,744	$ 22,744	$ 17,637	$ 17,637
Investments	25,469,753	26,557,131	25,868,013	27,140,515
Loans and mortgages	427,908,912	435,307,083	451,985,294	462,514,827
Accrued interest	1,320,396	1,320,396	1,935,129	1,935,129
Liabilities				
Borrowings	$ 13,578,441	$ 13,578,441	$ 8,223,677	$ 8,223,677
Deposits	398,632,390	406,049,479	426,169,109	433,162,619
Accrued interest	4,386,366	4,386,366	4,889,332	4,889,332

10. Related party transactions

Parent

The Company has a contract with its parent, Atlantic Central (Central), for the receipt of administrative, management and other services. The Companies also transact other business in the ordinary course of operations. The following transactions and balances are measured at the exchange amount:

	2011	2010
Expenses and fees related to the management contract	$ 2,220,000	$ 1,992,000
Interest income	202,841	141,324
Interest expense	650,899	315,392
Rental and other expenses	318,177	357,865
Dividend expense	15,000	15,000
Deposits (overdrafts) held by Central	(8,578,441)	(3,052,248)
Deposits by Central	31,765,047	20,000,000
Accounts payable to Central	651,338	474,855
Fixed assets sold to Central	37,881	-
Balances relating to mortgages sold:		
Interest net of administration fees	545,251	922,471
Mortgages under administration	9,955,163	14,060,798
Obligations related to mortgages	428,229	605,494

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:

		2011		2010
Computer services expense	$	**289,504**	$	308,720

Key management personnel

Key management personnel include members of the Board of Directors, the President and CEO, and other senior officers of the Company. A portion of the compensation paid to key management is paid by the Parent, with costs being allocated between the Company and the parent through a management fee. The components of total compensation received by key management personnel (including amounts paid by the Parent), and balances due to/from key management personnel are as follows:

		2011		2010
Short-term employee benefits	$	**1,007,433**	$	1,067,554
Contributions to a group savings for retirement program		**56,125**		59,923
Mortgage balances due from key management		**125,446**		145,749
Deposit balances due to key management		**516,360**		513,953

Short-term employee benefits include salaries, variable compensation, 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.

11. Commitments and contractual obligations

a) Management fees

Atlantic Central provides services under the following services agreements:

	Expires	Renewal	Fees
Executive Agreement	2014	Automatic renewal for 5 years	$250,000
Management Agreement	2012	Automatic renewal for 1 year term	Amount determined annually
Information Technology Services	2014	Automatic renewal for 5 years	Amount determined annually

b) Approved mortgages

At December 31, 2011 the Company had approved mortgages in the amount of $12,043,612 (2010 - $10,030,070) which have not been advanced.

c) Rental of premises

The Company has entered into an operating lease for premises in Sydney. The Company also had an operating lease for premises in Moncton which terminated in 2011 when its Moncton operations relocated to premises owned by Atlantic Central. The Company is committed to pay annual lease payments for rental space for premises as follows:

2012	2013	2014	2015	2016	After 5 Years
$ 30,990	$ -	$ -	$ -	$ -	$ -

Lease payments of $129,063 were recognized as an expense during the period, including minimum lease payments of $103,710 and contingent costs of $25,893.

The Sydney lease includes a requirement to pay basic rent of $25 per rentable square foot and additional rent of the Company's proportionate share of all increases in operating costs over $9.50 per rentable square foot of the premises, determined at the commencement of each calendar year. The term of the lease is from August 1, 2007 to July 31, 2012, and there is an option to extend the lease for further consecutive five year terms.

12. Taxes

The components of tax expense are as follows:

	2011	2010
Current tax expense		
Federal and provincial	$ 1,142,377	$ 493,138
Capital and Large Corporate Tax	217,880	196,571
	1,360,257	689,709
Deferred tax expense		
Origination and reversal of deductible temporary differences	6,032	(65,538)
Reduction in tax rate	26,566	18,573
	32,598	(46,965)
Total tax expense	$ 1,392,855	$ 642,744

The movement in deferred tax assets and liabilities are:

	Balance January 1 2010	Recognized in: Net Income	Recognized in: OCI	Balance December 31 2010	Recognized in: Net Income	Recognized in: OCI	Balance December 31 2011
Deferred tax assets							
Property and equipment	$ 25,190	$ 4,622	$ -	$ 29,812	$ 7,699	$ -	$ 37,511
Allowance for impaired loans	500,670	39,320	-	539,990	(42,921)	-	497,069
Losses carried forward	300	(152)	-	148	-	-	148
Other	-	124	-	124	(124)	-	-
	526,160	43,914	-	570,074	(35,346)	-	534,728
Deferred tax liabilities							
Unrealized gains on investments	(5,798)	-	3,051	(2,747)	-	2,747	-
Property and equipment	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
	(5,798)	-	3,051	(2,747)	-	2,747	-
Net deferred tax asset	$ 520,362	$ 43,914	$ 3,051	$ 567,327	$ (35,346)	$ 2,747	$ 534,728

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:

	2011	2010
Income before income taxes	$ 3,863,161	$ 1,486,938
Statutory income tax rate	42.94%	42.92%
Expected income tax	1,658,841	638,194
Effect on income tax of:		
Non-taxable dividends	(3,030)	(2,689)
Permanent tax differences	6,046	6,498
Capital and Large Corporate Tax	124,314	112,203
General tax rate reduction	(420,015)	(129,924)
Future tax rate reduction	26,566	18,573
Other	133	(111)
Total income tax expense	$ 1,392,855	$ 642,744

13. Capital requirements

The Company manages its capital under guidelines established by the Office of the Superintendent of Financial Institutions (OSFI), based on standards issued by the Bank for International Settlements, Basel Committee of Banking Supervisors. OSFI has adopted capital guidelines based on the standards known as Basel II, which became effective 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.

Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 comprises the more permanent components of capital and consists primarily of common shares, non-cumulative preferred shares, retained earnings and contributed surplus. Tier 2 capital, which is primarily composed of subordinated notes, is limited to 50% of Tier 1. Based on Pillar 1 of the Basel II framework, OSFI has established two standards: maximum assets to capital multiple and a minimum risk based capital ratio. The first test provides an overall measure of the adequacy of a Company's capital. The second measure focuses on risk faced by the Company.

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's internal capital requirements have been 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.

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. At December 31, capital ratios and assets to capital multiple were as follows:

		2011		2010
OSFI Statutory Tier 1 minimum		**4%**		4%
OSFI Target Tier 1 minimum		**7%**		7%
Actual Tier 1 ratio		**17.20%**		19.93%
Tier 1 ICAAP Requirement	$	**18,482,000**	$	14,964,000
Actual Tier 1 Capital	$	**30,929,000**	$	28,893,000
OSFI Statutory Total Capital minimum		**8%**		8%
OSFI Target Total Capital minimum		**10%**		10%
Actual Total Capital ratio		**21.19%**		24.87%
OSFI Maximum Capital Multiple		**20**		20
Actual Capital Multiple		**12.07**		13.41
Total Capital ICAAP Requirement	$	**23,875,000**	$	19,314,000
Actual Total Regulatory Capital	$	**38,100,000**	$	36,059,000

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

14. Credit facilities

The Company has established an unsecured operating line of credit with the Atlantic Central, bearing interest at prime, up to an amount of $20,000,000. At December 31, 2011 the amount outstanding on this facility was $13,578,441 (2010 - $8,223,677). In 2010 the Company 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, 2011 and 2010 the amount outstanding on this facility was nil.

15. Deposits

	2011	2010
Registered	$ 7,023,201	$ 7,497,923
Other deposits	6,476,931	6,264,478
Total demand	13,500,132	13,762,401
Registered	163,598,038	164,775,854
Other term deposits	221,534,220	247,630,854
Total term	385,132,258	412,406,708
	$ 398,632,390	$ 426,169,109

16. 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:

	2011	2010
Mortgages under administration	$ 88,723,103	$ 69,877,813

17. 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 after the fifth anniversary of the date of issue, subject to the approval of the Office of the Superintendent of Financial Institutions.

	Maturity Date	Earliest Redemption	2011	2010
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.

18. Other income

Other Income includes the following:

		2011		2010
Lending services fees	$	**1,807,945**	$	1,368,325
Lending services expenses		**(739,548)**		(648,791)
Investment services fees		**35,096**		28,371
Investment services expenses		**(513,402)**		(487,604)
Other		**50,884**		38,435
	$	**640,975**	$	298,736

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.

19. Impact of transition to IFRS

As stated in note 2, these are the Company's first financial statements prepared in accordance with IFRSs. The accounting policies set out in note 3 have been applied in preparing these financial statements for the year ended December 31, 2011, for the comparative information presented for the year ended December 31, 2010, and in the preparation of an opening IFRS statement of financial position as at January 1, 2010 (the Company's date of transition).

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of the impact of the transition from previous Canadian GAAP to IFRS on the Company's financial statements is set out in the following tables.

The adjustments relate to changes in the Company's methodology for determining allowances for collective losses on loans and mortgages. The new methodology, which was consistent with Canadian GAAP, was implemented in 2010 and is reflected in the Financial Statements for the year ended December 2010 as previously reported. As a result, the adjustments to IFRS impact only the opening IFRS statement of financial position at January 1, 2010 and the statement of comprehensive income for the year ended December 31, 2010, as detailed below.

There is no impact on cash flows for the year ended December 31, 2010 or the financial position as at December 31, 2010.

Reconcilation of equity as at January 1, 2010:

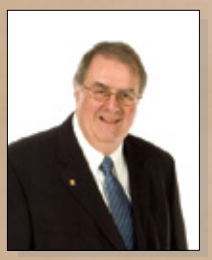
	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
Assets			
Cash and cash equivalents	$ 14,248	$	$ 14,248
Investments	17,602,691		17,602,691
Loans and mortgages	449,918,596	107,034	450,025,630
Accrued interest	1,852,725		1,852,725
Fixed assets	111,866		111,866
Future income tax asset	567,192	(46,830)	520,362
Other assets	787,622		787,622
	$ 470,854,940	$ 60,204	$ 470,915,144
Liabilities			
Borrowings	$ 3,044,729	$	$ 3,044,729
Deposits	421,136,993		421,136,993
Accrued interest	5,633,066		5,633,066
Accounts payable and accrued	3,458,845		3,458,845
Obligations related to mortgages	1,275,496		1,275,496
Income tax payable	46,253		46,253
Subordinated debentures	7,102,000		7,102,000
	441,697,382	-	441,697,382
Shareholders' equity			
Capital stock	15,996,797		15,996,797
Contributed surplus	1,785,887		1,785,887
Retained earnings	10,639,904	60,204	10,700,108
Accumulated other comprehensive income	734,970		734,970
	29,157,558	60,204	29,217,762
	$ 470,854,940	$ 60,204	$ 470,915,144

Reconciliation of comprehensive income for the year ended December 31, 2010:

	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
Gross financial margin	$ 12,784,282	$ -	$ 12,784,282
Provision for loan losses	180,890	107,034	287,924
Net financial margin	12,603,392	(107,034)	12,496,358
Other financial income	867,581	-	867,581
Net financial income	13,470,973	(107,034)	13,363,939
Other income	298,736	-	298,736
	13,769,709	(107,034)	13,662,675
Operating expenses	7,176,167	-	7,176,167
Operating income	6,593,542	(107,034)	6,486,508
Distributions to Credit Unions	4,999,570	-	4,999,570
Income before taxes	1,593,972	(107,034)	1,486,938
Income taxes	689,574	(46,830)	642,744
Net income	904,398	(60,204)	844,194
Other comprehensive income			
Net change in unrealized gains on available for sale investments, net of tax	88,767	-	88,767
Comprehensive income	$ 993,165	$ (60,204)	$ 932,961

Corporate Governance

Jim MacFarlane



Raymond Surette

Ron Andrews

Doug Dewling

Sound governance and ethical behaviour begins with our Board of Directors, which represents and is accountable to our shareholders and assumes responsibility for the stewardship of League Savings and Mortgage Company. The Board of Directors is responsible for overseeing the management of the business and affairs of League Savings with the objective of enhancing both shareholder and stakeholder value. Among its many specific duties, the Board approves strategic plans and objectives, 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 the company and reviews the company's ongoing financial performance.

Board Composition

The Board of Directors ensures that appropriate structures and procedures are in place so that it functions independently of management. In 2011, the Board was comprised of 11 directors, two elected at large from New Brunswick, one elected at large from each of Nova Scotia, Newfoundland and Labrador and Prince Edward Island and six representatives appointed by the company's parent, Atlantic Central. Directors are elected for three-year terms, and no employee may sit as a director.

The following individuals currently serve as the Board of Directors of League Savings:

- Jim MacFarlane, *Chair*
- Raymond Surette, *Vice-Chair*
- Ron Andrews
- Doug Dewling
- Dan Honnor
- Marc LeClair
- Kevin MacAdam
- Kevin Murphy
- Charles Parker
- John Peach
- Ken Shea

The Board and each Committee regularly meet once each quarter. The Board also 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 five times in 2011.

Committees of the Board
The Board has established three standing committees: Executive; Audit, Risk and Conduct Review; and Governance.

Executive Committee: Its three members include the Board Chair and Vice-Chair and one director elected by the Board. This committee is responsible for addressing matters in between scheduled Board meetings that require immediate attention, and for approving credit applications that are above management lending limits.

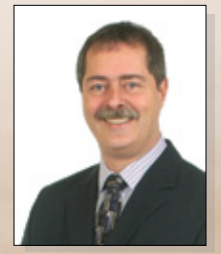
Committee Members: Jim MacFarlane (Chair), Raymond Surette (Vice-Chair) and Dan Honnor.

Audit, Risk and Conduct Review Committee: The Committee is made up of five members. As an Audit Committee, it 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. As a Risk Committee, it 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. As a Conduct Review Committee, it is responsible to ensure that the company has developed and adheres to ethical standards and sound business conduct in such areas as conflict of interest and related party procedures.

Committee Members: Doug Dewling (Chair), Marc LeClair, Dan Honnor, Ron Andrews and Kevin Murphy.

Governance Committee: Its five members are 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 nomination process for the Board of Directors including reviewing the qualifications of potential candidates for election to the Board and recommending the slate of nominees for inclusion in the proxy circular to the annual shareholders' meeting. 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.

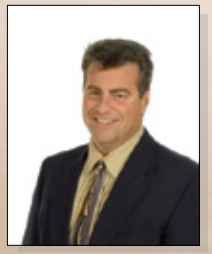
Committee Members: Ken Shea (Chair), Ray Surette, Kevin MacAdam, Charles Parker and John Peach.


Dan Honnor

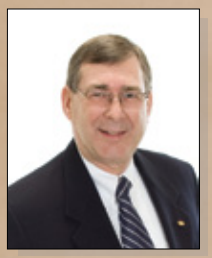

Marc LeClair


Kevin McAdam

LEAGUE SAVINGS AND MORTGAGE
A Credit Union Company



Kevin Murphy



Charles Parker

John Peach

Ken Shea

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 table following sets out the attendance of each Director at Board and Committee meetings throughout 2011:

Name	Board and Planning Session	Audit, Risk & Conduct Review Committee	Executive/ HR Committee	Governance Committee	Corporate Social Responsibility Committee	System Credit Committee†
*Jim MacFarlane	5/5	-	-	-	-	-
*Raymond Surette	5/5	-	-	3/4	-	-
Ron Andrews	4/4	3/3	-	-	-	-
Marc LeClair	4/5	4/4	-	-	-	-
Charles Parker	5/5	-	-	4/4	-	-
John Peach	4/4	-	-	3/3	-	-
Kevin Murphy	5/5	4/4	-	-	-	-
Ken Shea	4/5	-	-	3/3	-	-
*Dan Honnor	5/5	4/4	-	-	-	-
Doug Dewling	5/5	4/4	-	-	-	-
Kevin McAdam	5/5	-	-	4/4	-	-

*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 areas: Financial Performance, Relationship with Credit Union System, Board Functioning, Strategic Leadership, Corporate Social Responsibility, Governance, 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 and Mortgage Company, we recognize that our governance standards must not only evolve to respond to changes in our company, stakeholder expectations and regulatory requirements, but also to ensure that the company and its stakeholders receive the benefit of exceptional governance practices. Board and management continually monitor developments in corporate governance and are committed to ongoing training and development to ensure that League Savings continues to lead the credit union network with its governance practices.

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