

**Growth** through  
**Innovation** and  
***Transformation***

LEAGUE SAVINGS AND MORTGAGE COMPANY  
ANNUAL REPORT 2019

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## Innovation

**Translating an idea or invention into a good or service that creates value and satisfies the needs and expectations of customers.\***

## Transformation

**Fundamentally changing the systems, processes, people and technology across a whole business to achieve improved efficiency, effectiveness and stakeholder satisfaction.\***

# Growth

in today's market means leaders must continuously evaluate their strategic plans, goals and objectives, and even their business

models. That means making adjustments to meet members and consumers where they are and providing the products, services and experience they want and expect.

We must be innovative in our approach to ensure our business strategies align with changing member and consumer behaviour and trends in the financial services industry. The work we do together for the benefit of the Atlantic credit union system has enabled us to access products and services at competitive prices that would be difficult or impossible for us to achieve individually. This has enabled us to access products and services at competitive prices which would, at the very least, be difficult for us to achieve individually.

The transformative work we're doing to increase our digital capabilities and to sharing services will allow us to provide better service, achieve efficiencies and focus more attention on growing our businesses. In addition, building alliances with like-minded partners is also a key factor in our ability to compete for business.

Innovation and transformation are more than buzz words. They are integral for us to remain relevant and sustainable. Members expect it. It is our responsibility to deliver. We will continue to build on our strength as a system and make decisions together for the collective benefit of credit unions in Atlantic Canada.

\*Source: The Balance: Small Business



## CHAIR'S MESSAGE

League Savings and Mortgage Company achieved significant results in 2019 following the evolution of its business model in 2018. There is no question that change of this magnitude comes with challenges; however, our achievements confirm the decision to transform the way we do business was the right one.

Our new direction has strengthened existing partnerships and created new ones that benefit both League Savings and credit unions. The board commends the staff of League Savings for their work throughout 2019. Their ability to adopt a new way of doing business, while continuing to provide excellent support and service to credit unions, speaks to their dedication to the success of credit unions in Atlantic Canada.

Effective board governance is another important element in ensuring the financial and organizational well-being of League Savings so we can continue to be a strong partner for credit unions. The board went through an extensive process in 2018 to consider the skills and competencies we need to guide and oversee our new business model. We were pleased that a significant majority of our shareholders supported our by-law changes to allow for an independent director. In addition, board members participated in professional development opportunities such as risk and compliance training, to ensure we are well-positioned to achieve the goals and objectives set out in our three-year strategy.

We will continue to seek new partnerships and explore opportunities to expand League Savings' current business offerings. We believe the value we provide to credit unions by opening new business channels, will help them compete for business and meet the changing needs of their members.

**We will continue to seek new partnerships**

**and explore opportunities to expand**

**League Savings' current business offerings.**

As I reflect on the past few years, and the business realities that led to the evolution of the company, I am reminded once again that change is crucial for an organization to remain relevant, competitive and sustainable.

On behalf of the board, I want to thank the management team and staff for their tremendous leadership and commitment. Congratulations on your success through challenging times!

League Savings is poised to become a key player in the financial services industry and provide increased value to credit unions. I look forward with anticipation to the future of League Savings and the Atlantic credit union system.



Jim MacFarlane Chair  
League Savings and Mortgage Company  
Board of Directors



## CEO'S MESSAGE

As we think about our industry and where we're heading, transformation should be on all our minds. As a small system with \$6 Billion in assets, we need to be thoughtful about what it will take to thrive in the future. That has been on our minds at League Savings for the last five years. We saw the writing on the wall and recognized that transformation was needed to ensure we could remain a vital part of the Atlantic system. While it took time to identify and plan for our transformation, 2019 was the year we took action.

While many of you may still think of us as your mortgage company (50 years of the same business model does leave an impression), the reality is our new business model exponentially expands the possibilities of what we can do. During our discussions with credit unions and our work with you at the regional strategy level, we recognized several areas of your business that League, and our federal banking powers, may be uniquely suited to support. Chief among these is access to new credit markets. As personal lending has moved to a point of sale model, it has become increasingly difficult for credit unions to attract. League's new business

model gives us access to national partnerships and opportunities to tap into consumer credit markets, giving credit unions the ability to invest in the kinds of credit that we used to get through in-branch lending.

As we build out our model, we will enhance our skill sets in areas that credit unions will also need including risk, liquidity, capital and compliance. As our model evolves, we expect League will become a trusted source of expertise as credit unions seek to build their own capabilities in these important areas.

Our 2019 results were impressive: we developed new funding sources, attracting more than \$70 Million in new deposits, and took an active approach to managing our balance sheet. The result was our best financial performance in many years, with a ROE of more than 7% and an efficiency ratio of 47%. This positions League Savings as one of the "strong platforms" that form the foundation of our regional strategy.

While we are firmly focused on the future model for the company, we have not abandoned our traditional residential mortgage business. In September 2018, we announced our expanded partnership with Concentra Bank and our intention to partner with MCAP, a leader in the

**As we think about the changes necessary to keep pace in the banking industry,**

**this is a good test of our ability and capacity**

**to manage and respond to transformational change.**

mortgage servicing space in Canada. In early 2019, we transitioned our residential mortgage operations to MCAP, a bold and transformational move that significantly improved the economics of the business. This enabled us to remain in the residential mortgage business. We heard from some credit unions that the transition was difficult, and we appreciated your patience as we enhanced the model. I am pleased to report that lender satisfaction improved materially by the end of the year, and our credit union referral volumes have nearly returned to previous levels. While MCAP is a world class mortgage servicer, the change has been significant for our team, and yours. As we think about the changes necessary to keep pace in the banking industry, this is a good test of our ability and capacity to manage and respond to transformational change.

While this change had an impact on your operations, it had an even more significant impact on ours. As a result of our partnership with MCAP, we said goodbye to many of our colleagues. To all of you who worked through the change, I want to say how much I appreciate your commitment to our company and our credit unions. 2019 was a difficult but necessary year on our journey, and your efforts throughout the year were nothing short of extraordinary.

As we look forward, we have positioned League Savings to be a significant resource to the Atlantic system. In 2020 you should expect to see new opportunities to invest in League Savings, and new business opportunities to improve your own balance sheet. While 2019 can be seen as the launch of our new model, 2020 will be the year we build momentum.


In closing, I want to thank our board of directors. Your vision and commitment to making significant and difficult decisions allowed us to get to this point in our journey. To my team, I can't thank you enough for your efforts this year. And finally, to you, our credit union partners, thank you for your continued support of League Savings. We are privileged to be part of your Atlantic credit union system.



Michael Leonard  
President and CEO  
League Savings and Mortgage Company

A black and white portrait of a man with short hair, smiling, with his arms crossed. He is wearing a dark button-down shirt.

**MIKE**

A black and white portrait of a woman with short dark hair, smiling, with her arms crossed. She is wearing a light-colored blazer over a patterned top.

**KIM WALKER  
VP TREASURY  
& CREDIT  
SERVICES**

**KIM**

A black and white portrait of a man with short hair, smiling, with his hands in his pockets. He is wearing a dark patterned button-down shirt.

**PAUL**

A black and white portrait of a woman with short hair and glasses, smiling, with her arms crossed. She is wearing a patterned top.

**SHARON ARNOLD  
SENIOR VP FINANCE &  
CHIEF RISK OFFICER**

**SHARON**

A black and white portrait of a woman with long dark hair, smiling, with her arms crossed. She is wearing a dark leather jacket over a dark top.

**BRENDA**

A black and white portrait of a man with short hair and glasses, smiling, with his hands clasped in front of him. He is wearing a patterned button-down shirt.

**JOE MALEK  
VP STRATEGIC  
CHANGE**

**JOE**

OUR MANAGEMENT TEAM



# Corporate Governance

Sound governance and ethical behaviour begins with our board of directors, which is accountable to our shareholder and assumes responsibility for the stewardship of League Savings and Mortgage Company ("League Savings"). The board of directors (board) 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 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 ensures that appropriate structures and procedures are in place to maintain its independence from management.

## Board Composition

The board of directors of League Savings consists of 11 directors as follows:

- One director nominated by Atlantic Central Class LSM shareholders in New Brunswick
- One director nominated by Atlantic Central Class LSM shareholders in Newfoundland and Labrador
- One director nominated by Atlantic Central Class LSM shareholders in Nova Scotia
- One Director nominated by Atlantic Central Class LSM shareholders in Prince Edward Island
- One director nominated by all Atlantic Central Class LSM shareholders
- Six directors appointed by the sole Common Shareholder, League Savings' parent, Atlantic Central (Central)

The following individuals currently serve on the board of directors:

Jim MacFarlane, Chair  
Tammy Christopher, Vice-Chair  
Pat Duffield  
William Marr  
Sarah Millar  
Paul Newman  
Gary O'Brien  
Carol Ripley  
George Smith  
Raymond Surette  
William Timmons

The board and each committee meet at least once each fiscal quarter, and the board 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 met seven times in 2019.

## Committees of the Board

The board has established the following standing committees: Audit; Risk; Conduct Review; Co-operative Social Responsibility; Executive/Human Resources; and Governance.

### Audit, Risk and Conduct Review Committees

The committees consist of at least four directors, none of whom is an employee or officer of League Savings or Central. The Audit Committee is responsible for ensuring that management has designed and implemented an effective system of financial management and related internal controls. It reviews and reports on the audited financial statements and ensures compliance with certain regulatory and statutory requirements. It is also responsible for meeting 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.



### Committees Members

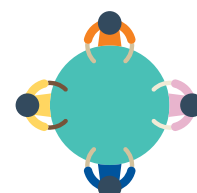
Carol Ripley (Chair), William Marr, Paul Newman, and George Smith.

### 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 representatives from each of the Atlantic provinces. The CSR Committee develops and supports clear and precise policy statements for consideration by the board that help define our belief in social well-being and sustainability. The committee recommends to the board priorities for charitable giving and awards and recognition programs, and provides related oversight to these priorities and programs. In addition, the committee ensures sustainability and environmental impacts are considered in the management of premises and operations.

### (Joint) Committee Members

Gary O'Brien (Chair), Pat Duffield, Sarah Millar, William Timmons, and Thomas Vickers.



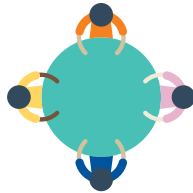
## Mandate of the Board of Directors

### Executive/Human Resources Committee

Its four members include the board chair, the vice-chair and two directors elected at-large by the board. 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, and also acts as a Human Resources Committee.

#### Committee Members

Jim MacFarlane (Chair), Tammy Christopher (Vice-Chair), Sarah Millar, and William Timmons.

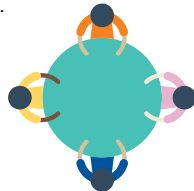


### Governance Committee

The committee consists of at least four directors. The Governance Committee is responsible for reviewing and recommending changes 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. The committee is responsible for overseeing the director evaluation process, board competencies, and the ongoing training and development of board members.

#### Committee Members

Jim MacFarlane (Chair), Tammy Christopher, Pat Duffield, and Raymond Surette.



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, Central's 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' purpose and values, its long-term objectives and the approval of corporate strategies. Specifically, the board is responsible for:

- the evaluation of the President and CEO
- establishing and approving Board policies
- overseeing League Savings' internal control framework
- developing and approving League Savings' strategic goals and business plans
- providing advice to the President and CEO
- evaluating the board's performance and overseeing the ethical, legal and social conduct of the organization
- 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 2019:

Name	Board and Planning Session	Audit, Risk & Conduct Review Committees	Co-operative Social Responsibility Committee	Executive/HR Committee	Governance Committee
Jim MacFarlane*	7/7			10/10	4/4
Tammy Christopher*	6/7			7/8	2/3
Pat Duffield	7/7			1	4/4
William Marr	6/7	5/5			
Sarah Millar	7/7		4/4	7/8	
Paul Newman	7/7	5/5			
Gary O'Brien	7/7		4/4		
Carol Ripley	6/6	4/4			
George Smith	7/7	5/5			
Raymond Surette	7/7				4/4
William Timmons	6/7			7/8	

\*Table Officer



Jim MacFarlane, Chair



Tammy Christopher,  
Vice-Chair



Pat Duffield



William Marr



Sarah Millar



Paul Newman



Gary O'Brien



Carol Ripley



George Smith



Raymond Surette



William Timmons

## Board Evaluations

As part of its commitment to ongoing development and improvement, the board conducts an annual self-evaluation. This assesses the board's effectiveness in the following governance areas: League Savings' purpose 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.

**League Savings and Mortgage  
Company**

Financial Statements  
**December 31, 2019**

## **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 (IFRS) as issued by the International Accounting Standards Board (IASB).

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



## *Independent auditor's report*

To the Shareholders of League Savings and Mortgage Company

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### *Our opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of League Savings and Mortgage Company (the Company) as at December 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

#### **What we have audited**

The Company's financial statements comprise:

- the balance sheet as at December 31, 2019;
- the statement of income for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in shareholders' equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

#### **Independence**

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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*PricewaterhouseCoopers LLP*  
Cogswell Tower, 2000 Barrington Street, Suite 1101, Halifax, Nova Scotia, Canada B3J 3K1  
T: +1 902 491 7400, F: +1 902 422 1166

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





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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants**

Halifax, Nova Scotia  
March 13, 2020

# League Savings and Mortgage Company

## Balance Sheet

As at December 31, 2019

(expressed in Canadian dollars)

	2019 \$	2018 \$
<b>Assets</b>		
Cash and cash equivalents	5,683,795	1,175,829
Investments (note 6)	28,035,697	27,668,023
Loans and mortgages (note 7)	604,605,159	523,705,290
Accrued interest	1,382,233	1,845,922
Deferred tax assets (note 14)	619,526	531,216
Securitization assets (note 8)	58,913,513	32,476,786
Other assets	5,046,007	2,706,243
	<u>704,285,930</u>	<u>590,109,309</u>
<b>Liabilities</b>		
Borrowings (note 16)	-	4,656,832
Deposits (note 9)	404,242,079	319,907,954
Accrued interest	3,810,239	2,480,855
Accounts payable and accrued liabilities	22,009,320	13,878,428
Capital tax payable	125,846	34,725
Income tax payable	283,751	-
Mortgage backed securities (note 8)	223,614,772	202,576,268
	<u>654,086,007</u>	<u>543,535,062</u>
<b>Shareholders' equity</b>		
Capital stock (note 10)	23,058,613	22,101,613
Contributed surplus	1,785,887	1,785,887
Retained earnings	25,331,597	22,759,569
Accumulated other comprehensive income (loss)	23,826	(72,822)
	<u>50,199,923</u>	<u>46,574,247</u>
	<u>704,285,930</u>	<u>590,109,309</u>

### Commitments and contractual obligations (note 13)

#### Approved on Behalf of the Board



Michael Leonard  
President and CEO



Jim MacFarlane  
Chair



Carol Ripley  
Director

The accompanying notes are an integral part of these financial statements.

# League Savings and Mortgage Company

## Statement of Income

For the year ended December 31, 2019

(expressed in Canadian dollars)

	2019 \$	2018 \$
<b>Financial income</b>		
Interest on investments	627,375	586,914
Interest on loans and mortgages	21,099,331	18,844,895
	21,726,706	19,431,809
<b>Financial expense</b>	12,184,075	9,287,843
Gross financial margin	9,542,631	10,143,966
Provision for credit losses	429,461	118,888
Net financial margin	9,113,170	10,025,078
Securitization gains (note 8)	3,169,065	930,909
Non-interest income (expense) (note 18)	(982,263)	96,310
	11,299,972	11,052,297
<b>Operating expenses</b>		
Management fees (note 12)	4,467,025	5,117,641
Office expense	374,729	569,058
Democracy	243,534	221,563
Professional fees	120,810	382,025
Other expenses	113,982	97,691
	5,320,080	6,387,978
<b>Operating income</b>	5,979,892	4,664,319
Initiatives and restructuring expenses (note 19)	-	720,876
Income before income taxes	5,979,892	3,943,443
Capital tax (note 14)	863,846	742,999
Income taxes (note 14)	1,587,019	986,112
<b>Net income for the year</b>	3,529,027	2,214,332

The accompanying notes are an integral part of these financial statements.

# League Savings and Mortgage Company

## Statement of Comprehensive Income

For the year ended December 31, 2019

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(expressed in Canadian dollars)

	2019 \$	2018 \$
<b>Net income for the year</b>	<u>3,529,027</u>	<u>2,214,332</u>
<b>Other comprehensive income ("OCI")</b>		
<b>Items that will be reclassified subsequently to income</b>		
Net change in unrealized gains (losses) on investments at fair value through OCI		
Net unrealized gains (losses) on mark to market investments	140,070	(44,915)
Reclassification of net realized losses (gains) to net income	-	-
Income tax expense (note 14)		
On unrealized losses (gains) on mark to market investments	(43,422)	13,924
On reclassification of net realized gains (losses) to net income	-	-
<b>Other comprehensive income (loss)</b>	<u>96,648</u>	<u>(30,991)</u>
<b>Comprehensive income</b>	<u>3,625,675</u>	<u>2,183,341</u>

The accompanying notes are an integral part of these financial statements.

# League Savings and Mortgage Company

## Statement of Changes in Shareholders' Equity

For the year ended December 31, 2019

(expressed in Canadian dollars)

	Common shares \$ (note 10)	Contributed surplus \$	Retained earnings \$	Accumulated other comprehensive income (loss) \$	Total equity \$
<b>Year ended December 31, 2019</b>					
<b>Balance – Beginning of year</b>	22,101,613	1,785,887	22,759,570	(72,822)	46,574,248
Net income	-	-	3,529,027	-	3,529,027
Other comprehensive income, net of tax	-	-	-	96,648	96,648
Comprehensive income	-	-	3,529,027	96,648	3,625,675
Shares issued	957,000	-	-	-	957,000
Shares redeemed	-	-	-	-	-
Dividends	-	-	(957,000)	-	(957,000)
<b>Balance – End of year</b>	<b>23,058,613</b>	<b>1,785,887</b>	<b>25,331,597</b>	<b>23,826</b>	<b>50,199,923</b>
<b>Year ended December 31, 2018</b>					
<b>Balance – Beginning of year</b>	22,101,613	1,785,887	21,121,540	(41,831)	44,967,209
Impact of adopting IFRS 9	-	-	31,492	-	31,492
Net income	-	-	2,214,332	-	2,214,332
Other comprehensive loss, net of tax	-	-	-	(30,991)	(30,991)
Comprehensive income (loss)	-	-	2,214,332	(30,991)	2,183,341
Shares issued	-	-	-	-	-
Shares redeemed	-	-	-	-	-
Dividends	-	-	(607,794)	-	(607,794)
<b>Balance – End of year</b>	<b>22,101,613</b>	<b>1,785,887</b>	<b>22,759,570</b>	<b>(72,822)</b>	<b>46,574,248</b>

The accompanying notes are an integral part of these financial statements.

# League Savings and Mortgage Company

## Statement of Cash Flows

For the year ended December 31, 2019

(expressed in Canadian dollars)

	2019 \$	2018 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income for the year	3,529,027	2,214,332
Charges (credits) to income not involving cash		
Loans and mortgages, net	(80,899,869)	(14,293,463)
Deposits, net	84,334,125	(1,572,034)
Mortgage backed securities, net	21,038,504	13,089,015
Interest receivable/payable, net	1,793,073	(19,988)
Income taxes receivable/payable, net	283,751	(373,483)
Deferred tax assets, net	(88,310)	85,292
Other items, net	(20,554,477)	(432,996)
	<u>9,435,824</u>	<u>(1,303,325)</u>
<b>Financing activities</b>		
Dividends paid	-	(607,794)
<b>Investing activities</b>		
Investments, net	<u>(271,026)</u>	<u>106,933</u>
<b>Net change in cash and cash equivalents</b>	9,164,798	(1,804,186)
<b>Cash and cash equivalents – Beginning of year</b>	<u>(3,481,003)</u>	<u>(1,676,817)</u>
<b>Cash and cash equivalents – End of year</b>	<u>5,683,795</u>	<u>(3,481,003)</u>
<b>Cash and cash equivalents include</b>		
Cash and balances with financial institutions	5,683,795	1,175,829
Cash included in investments	-	(4,656,832)
	<u>5,683,795</u>	<u>(3,481,003)</u>
<b>Supplemental disclosure of cash flow information</b>		
Interest received	22,178,299	19,411,541
Dividends received	12,096	29,521
Interest paid	10,854,691	9,454,076
Income taxes paid, net of refunds	1,435,000	2,097,928

The accompanying notes are an integral part of these financial statements.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

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(expressed in Canadian dollars)

### 1 Reporting entity

League Savings and Mortgage Company (the Company) is incorporated in Canada under the *Trust and Loan Companies Act (Canada)*. 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. 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 March 13, 2020.

### 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 4. The financial statements have been prepared on the historical cost basis except for certain financial instruments as indicated in note 4.

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 Changes in accounting standards

#### Changes in accounting policies during the year

The following amended standards, that were effective January 1, 2019, had no significant impact on the Company:

- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);
- IFRIC 23, Uncertainty over Income Tax Treatments; and
- IFRS 16, Leases

#### Future changes in accounting policies

There are no accounting changes, that have been issued but are not yet effective, that are expected to have a significant impact on the company.



# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

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(expressed in Canadian dollars)

### 4 Summary of significant accounting policies

#### **Cash and cash equivalents**

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

#### **Financial instruments**

The Company classifies its financial assets in the following measurement categories: Fair value through profit and loss (FVTPL); fair value through other comprehensive income (FVOCI); or amortized cost. Management determines the classification of its financial instruments at initial recognition.

The accounting policies related to these financial assets and liabilities are as follows:

##### *Measurement methods – Amortized cost and effective interest rate*

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization, using the effective interest method, of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. it is amortized cost before any loan loss allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Company revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in net income.

##### *Interest income*

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or 'Stage 3'), for which interest income is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss (ECL) provision). Expenses incurred directly in the origination of loans and mortgages are deferred and recognized in the statement of income as a reduction to income of the expected life of the relevant loans and mortgages.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

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(expressed in Canadian dollars)

### 4 Summary of significant accounting policies (continued)

#### Financial instruments (continued)

##### *Initial recognition and measurement*

The Company recognizes loans and mortgages on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the Company becomes party to the contractual provision of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Immediately after initial recognition, an ECL allowance is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognized in net income when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs or realized through settlement.

##### *Classification and subsequent measurement*

Assets carried at amortized cost are measured as outlined above.

#### **Investments**

The classification requirements for debt and equity investments are described below:

##### *Debt instruments*

Debt instruments are instruments that meet the definition of a financial liability from the issuer's perspective; such as loans and government and corporate bonds. The classification and subsequent measurement of debt instruments depends on the business model for managing the asset and the cash flow characteristics of the asset.

Based on these factors, the Company classifies its debt instruments into one of the following two measurement categories:

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest (SPPI) are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income (OCI), except for interest revenue, ECL and reversals and foreign exchange gains and losses, which are recognized in income or loss. When the debt instrument is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to income or loss. Interest income from these financial assets is included in interest on investments using the effective interest rate method.
- FVTPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is included in interest on investments.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

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(expressed in Canadian dollars)

### 4 Summary of significant accounting policies (continued)

#### ***Investments***

##### *Business model*

The Company considers the following in the determination of the applicable business model for financial assets:

- the business purpose of the portfolio, such as a focus on earning contractual interest income or a focus on matching the duration of the liabilities that are funding the assets;
- the risks that are being managed and the type of activities that are carried out on a day-to-day basis to manage the risks;
- the basis on which performance of the portfolio is being evaluated; and
- the frequency and significance of sales activity in prior periods and expectations about future sales activity.

The Company has established specific criteria for financial assets that are originated or acquired for the purpose of securitization in a subsequent period. If, at origination or acquisition, based on this established criteria, the financial asset is expected to be securitized as part of a portfolio that qualifies for derecognition, the business objective of holding the financial asset to collect contractual cash flows is not met. Such financial assets are measured at FVTPL. If the portfolio does not qualify for derecognition, the Company has elected to determine the business model based on the accounting result of the securitization. As such, the held-to-collect business model is considered to be met.

##### *SPPI*

Where the business model is to hold to collect contractual cash flows, or to collect contractual cash flows and sell, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

##### *Equity instruments*

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. The Company elects to present in OCI changes in the fair value of certain equity instruments that are not held for trading.

Gains and losses on these equity instruments are never reclassified to income or loss and no impairment is recognized in income or loss. Dividends are recognized in investment income unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI.

Dividend income on investments is recognized when the right to receive income is established.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

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(expressed in Canadian dollars)

### 4 Summary of significant accounting policies (continued)

#### **Investments** (continued)

##### *Impairment*

The Company assesses on a forward-looking basis ECL associated with its assets carried at amortized cost and FVOCI. The Company recognized a loss allowance for such losses at each reporting date. The measurement of ECL reflects reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Debt instruments carried at FVOCI are considered to have low credit risk, and the loss allowance recognized during the period was therefore limited to 12 months ECL. Management considers 'low credit risk' to be, in the absence of evidence of an increase in credit risk, investments in government debt instruments and investments in financial institutions that have been designated as a domestic systemically important bank (D-SIB) or a global systemically important bank (G-SIB). Other instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Note 5 provides more detail on how the ECL is measured.

#### **Modifications of loans**

The Company sometimes renegotiates or otherwise modifies the contractual cash flows of loans. When this happens, the Company assesses whether or not the new terms are substantially different than the original terms. The Company does this by considering, among others, the following factors:

- if the borrower is in financial difficulty, where the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- significant extension of the loan term when the borrower is not in financial difficulty;
- significant change in the interest rate;
- change in the currency the loan is denominated in; or
- insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Company derecognizes the original financial asset, recognizes a new asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Company also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed upon payments. Differences in the carrying amount are also recognized in net income as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in net income. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

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(expressed in Canadian dollars)

### 4 Summary of significant accounting policies (continued)

#### ***Derecognition other than on a modification***

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.

The Company enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

These transactions are accounted for as "pass through" transfers that result in derecognition if the Company:

- has no obligation to make payments unless it collects equivalent amounts from the assets;
- is prohibited from selling or pledging the assets; and

has an obligation to remit any cash it collects from the assets without material delay.

#### ***Financial liabilities***

Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

#### ***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 CMHC 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 to Canada Housing Trust (CHT), a CMHC 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 CHT 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.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

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(expressed in Canadian dollars)

### 4 Summary of significant accounting policies (continued)

#### *Mortgage backed securities* (continued)

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*

The sale of mortgages through the NHA MBS program does not meet the requirements for derecognition if the Company has not transferred substantially all the risks and rewards of ownership of the underlying mortgages, as it 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 purchased pools of mortgages for subsequent sale into the CMB program where the Company's exposure to risks and rewards from 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 retained interests and servicing liabilities on the balance sheet, in securitization assets and accounts payable and other accrued 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 non-interest income (securitization expenses), respectively.

#### *Gains on securitization*

When these assets are derecognized, the gains or losses on the transactions are recorded in securitization gains 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.

#### **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.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

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(expressed in Canadian dollars)

### 4 Summary of significant accounting policies (continued)

#### Revenue 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.

Fee income, including account servicing fees, loan fees, discharge fees and administration fees are recognized as the services are provided.

#### 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).

#### Initiatives and restructuring

Expenses that are not expected to recur in normal operations, including certain expenses relating to system initiatives or other organizational changes, are reported in initiatives and restructuring expenses.

#### 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.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

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(expressed in Canadian dollars)

### 4 Summary of significant accounting policies (continued)

#### Critical accounting estimates and assumptions (continued)

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 considered to approximate par value based on the terms of those instruments. The Company continues to monitor these instruments for any indication that a new measure of fair value is available.

##### *Expected credit loss allowance*

The Company reviews its loan portfolio to assess the ECL allowance for loans at least on a quarterly basis. The measurement of the ECL allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of members defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 5.

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- determining criteria for significant increase in credit risk (SICR);
- choosing appropriate models and assumptions for the measurement of ECL; and
- establishing groups of similar financial assets for the purposes of measuring ECL.

The judgments, inputs, methodology and assumptions used for estimating the ECL allowance are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

##### *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.

##### *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.



# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

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(expressed in Canadian dollars)

### 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 and 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 the Company's financial instruments are credit, liquidity and market risk.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

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(expressed in Canadian dollars)

### 5 Risk management (continued)

#### Credit risk

Credit risk is the potential for loss due to the failure of a borrower, counterparty, 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. There is also credit risk in unfunded loan commitments. The Company has established policies and procedures for credit risk management, including individual counterparty limits and portfolio category 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 credit 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 estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Company has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring credit risk of loan and advances at a counterparty level, the Company considers three components:

- the probability of default (PD) by the borrower or counterparty on its contractual obligations;
- current exposures to the counterparty and its likely future development, from which the Company derives the exposure at default (EAD); and
- the likely recovery ratio on the defaulted obligations loss given default (LGD).

The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimize their effectiveness.

The classes of financial instruments to which the Company is most exposed to credit risk are cash, investments and loans and mortgages.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

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(expressed in Canadian dollars)

### 5 Risk management (continued)

#### Credit risk (continued)

##### *Expected credit loss measurement*

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- a financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company;
- if a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired; and
- if the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

Financial instruments in Stage 1 have their ECL measured at an amount equal to the ECLs that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on ECLs on a lifetime basis.

The key judgments and assumptions adopted by the Company in addressing the requirements of the standard are discussed below:

##### *Significant increase in credit risk (SICR)*

The assessment of SICR incorporates forward-looking information and is performed on a quarterly basis at a portfolio level for all instruments held by the Company. A watch list is used to monitor credit risk; this assessment is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by Management.

The Company considers a financial instrument to have experienced a SICR when one or more of the following quantitative or qualitative criteria have been met:

- for consumer and residential loans:
  - contractual cash flow obligations are more than 30 days past due, and/or;
  - available information at the reporting date indicates that the ability of the borrower to fulfill its contractual cash flow obligations will be reduced (e.g. using internal watch lists for monitoring the credit risk of borrowers); and
- for commercial loans:
  - contractual cash flow obligations are more than 30 days past due; and/or
  - available information at the reporting date indicates that the ability of the borrower to fulfill its contractual cash flow obligations will be reduced (e.g. significant deterioration in risk rating, in short-term forbearance, early signs of cash flow/liquidity problems, adverse change in operating results, adverse changes in business, financial or economic conditions in which the business operates).

The Company has used the low credit risk exemption for certain investment grade securities and for credit union lines of credit.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

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(expressed in Canadian dollars)

### 5 Risk management (continued)

#### Credit risk (continued)

##### *Definition of default and credit-impaired assets*

The Company defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, when it meets one or more of the following:

- the borrower is more than 90 days past due on its contractual payments;
- the borrower is in long-term forbearance; and
- the borrower is insolvent or has filed for bankruptcy.

The criteria above have been applied to all financial instruments held by the Company and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Company's ECL calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria.

##### *Measuring ECL — Explanation of inputs, assumptions and estimation techniques*

The ECL is measured on either a 12-month or lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECLs are the discounted product of the PD, EAD and LGD, defined as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months or over the remaining lifetime of the obligation;
- EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months or over the remaining lifetime; and
- LGD represents the Company's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of EAD. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be incurred if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be incurred if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

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(expressed in Canadian dollars)

### 5 Risk management (continued)

#### Credit risk (continued)

##### *Measuring ECL — Explanation of inputs, assumptions and estimation techniques (continued)*

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. For amortizing products this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type:

- for secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and expected recovery costs; and
- for unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies.

The assumptions underlying the ECL calculation, such as how the maturity profile of the PDs and collateral values change, etc., are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

##### *Collateral held and other credit risk enhancements*

The Company employs a range of policies and practices to mitigate credit risk. The most common is accepting collateral for funds advanced. A valuation of the collateral obtained is prepared as part of the loan origination process. The principal collateral types for loans and advances are mortgages over residential properties and charges over business assets such as premises, inventory and accounts receivable. The Company's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held since the prior period.

At December 31, 2019, the net carrying amount of credit impaired loans and advances to customers amounted to \$713,215 (2018 - \$286,611) and the value of identifiable collateral held against these loans amounted to \$665,030 (2018 - \$166,500).

Assets obtained by the Company, by taking possession of collateral held as security against loans and advances, are included in other assets. The balance held at December 31, 2019 was \$1,059,468 (2018 - \$866,738).

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

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

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(expressed in Canadian dollars)

### 5 Risk management (continued)

#### 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; and
- performing scenario testing and contingency planning.

The Company's 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. The matching of the maturities of assets and liabilities are detailed in note 11.

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

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

### 5 Risk management (continued)

#### 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. This includes limits on the mismatch of foreign currency assets and liabilities, and limits on the amount of equity investments permitted in the securities portfolio. The Company has no exposure to commodity prices.

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 monthly 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 or decrease of 100 basis points is disclosed in the table below.

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

	2019 \$	2018 \$
100 basis point increase	(199,220)	(497,800)
100 basis point decrease	189,060	490,000

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.

### 6 Investments

Debt instruments are carried at FVOCI. For equity investments, the Company has also elected to measure the investments at FVOCI.

	2019		2018	
	Cost \$	Market value \$	Cost \$	Market value \$
Government debt	27,857,864	27,740,872	27,630,260	27,445,448
Co-operative equities	4,025	4,025	4,025	4,025
Corporate equities	50,000	290,800	50,000	218,550
	27,911,889	28,035,697	27,684,285	27,668,023

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

### 7 Loans and mortgages

As at December 31, 2019, loans are presented net of ECLs totalling \$2,072,547 (2018 - \$1,739,137). Loans are initially measured at fair value and are subsequently measured at amortized cost.

	<b>Total loans</b>	<b>Allowance for credit losses</b>	<b>Net loans</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>2019</b>			
Consumer loans	2,296,189	86,516	2,209,673
Residential insured	388,316,108	68,796	388,247,312
Residential uninsured	156,024,736	674,909	155,349,827
Multi-residential insured	10,064,690	2,609	10,062,081
Multi-residential uninsured	70,683,303	459,159	70,224,144
Non-residential	69,509,768	780,558	68,729,210
	<u>696,894,794</u>	<u>2,072,547</u>	<u>694,822,247</u>
Less: under administration			
Residential insured	78,712,807	-	78,712,807
Residential uninsured	11,504,281	-	11,504,281
	<u>90,217,088</u>	<u>-</u>	<u>90,217,088</u>
	<u>606,677,706</u>	<u>2,072,547</u>	<u>604,605,159</u>
<b>2018</b>			
Consumer loans	3,426,898	130,539	3,296,359
Residential insured	396,824,808	82,906	396,741,902
Residential uninsured	101,263,322	400,969	100,862,353
Multi-residential insured	9,692,615	2,513	9,690,102
Multi-residential uninsured	55,098,438	321,336	54,777,102
Non-residential	65,811,047	800,874	65,010,173
	<u>632,117,128</u>	<u>1,739,137</u>	<u>630,377,991</u>
Less: under administration			
Residential insured	93,762,356	-	93,762,356
Residential uninsured	12,877,171	-	12,877,171
Multi-residential uninsured	6,589	-	6,589
Non-residential	26,585	-	26,585
	<u>106,672,701</u>	<u>-</u>	<u>106,672,701</u>
	<u>525,444,427</u>	<u>1,739,137</u>	<u>523,705,290</u>

The following table is a summary of loans and mortgages by ECL impairment stage. Stage 1 represents those performing loans carried with a 12-month expected credit loss, Stage 2 represents those performing loans carried with a lifetime expected credit loss and Stage 3 represents those loans with a lifetime credit loss that are considered impaired. The gross carrying amount of financial assets below also represents the Company's maximum exposure to credit risk on these assets.



# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

### 7 Loans and mortgages (continued)

	<b>Performing</b>		<b>Impaired</b>	
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	\$	\$	\$	\$
<b>2019</b>				
Consumer loans	2,285,892	10,297	-	2,296,189
Residential insured	308,229,313	975,077	398,911	309,603,301
Residential uninsured	144,341,423	179,032	-	144,520,455
Multi-residential insured	10,064,690	-	-	10,064,690
Multi-residential uninsured	70,489,617	-	193,686	70,683,303
Non-residential	69,389,150	-	120,618	69,509,768
	<b>604,800,085</b>	<b>1,164,406</b>	<b>713,215</b>	<b>606,677,706</b>
<b>2018</b>				
Consumer loans	3,410,113	15,686	1,099	3,426,898
Residential insured	302,534,088	507,125	21,239	303,062,452
Residential uninsured	88,386,151	-	-	88,386,151
Multi-residential insured	9,692,615	-	-	9,692,615
Multi-residential uninsured	55,091,849	-	-	55,091,849
Non-residential	64,375,970	1,144,219	264,273	65,784,462
	<b>523,490,786</b>	<b>1,667,030</b>	<b>286,611</b>	<b>525,444,427</b>

### Loss allowance

The loss allowance recognized in the period is impacted by a variety of factors, such as:

- transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) in credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- impact on the measurement of ECL due to changes in PD, EAD and LGD in the period, arising from regular refreshing of inputs to models;
- impacts on the measurement of ECL due to changes made to models and assumptions;
- discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- financial assets derecognized during the period and the write-offs of allowances related to assets that were written off during the period.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

### 7 Loans and mortgages (continued)

#### Loss allowance (continued)

The following table presents the reconciliation of allowances for credit losses for each loan category based on these factors:

	<b>Performing</b>		<b>Impaired</b>	
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Consumer loans</b>				
Balance as at December 31, 2018	121,017	8,456	1,067	130,540
Gross write-offs	(53,919)	(3,677)	(236)	(57,832)
Recoveries	4,853	331	21	5,205
Remeasurement	9,014	441	(852)	8,603
<b>Balance as at December 31, 2019</b>	<b>80,965</b>	<b>5,551</b>	<b>-</b>	<b>86,516</b>
<b>Residential insured</b>				
Balance as at December 31, 2018	60,938	729	21,239	82,906
Transfer to (from)				
Stage 2	-	(430)	430	-
Stage 3	276	(276)	-	-
Remeasurement (a)	939	1,379	(16,428)	(14,110)
<b>Balance as at December 31, 2019</b>	<b>62,153</b>	<b>1,402</b>	<b>5,241</b>	<b>68,796</b>
<b>Residential uninsured</b>				
Balance as at December 31, 2018	400,969	-	-	400,969
Transfer to (from)				
Stage 1	1,312	(1,312)	-	-
Remeasurement (a)	266,702	7,238	-	273,940
<b>Balance as at December 31, 2019</b>	<b>668,983</b>	<b>5,926</b>	<b>-</b>	<b>674,909</b>

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

### 7 Loans and mortgages (continued)

#### Loss allowance (continued)

	<b>Performing</b>		<b>Impaired</b>	
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Multi-residential insured</b>				
Balance as at December 31, 2018	2,513	-	-	2,513
Remeasurement <sup>(a)</sup>	96	-	-	96
<b>Balance as at December 31, 2019</b>	<b>2,609</b>	<b>-</b>	<b>-</b>	<b>2,609</b>
<b>Multi-residential uninsured</b>				
Balance as at December 31, 2018	321,336	-	-	321,336
Transfer to (from)				
Stage 1	(47,630)	-	47,630	-
Remeasurement <sup>(a)</sup>	137,487	-	336	137,823
<b>Balance as at December 31, 2019</b>	<b>411,193</b>	<b>-</b>	<b>47,966</b>	<b>459,159</b>
<b>Non-residential</b>				
Balance as at December 31, 2018	612,637	90,465	97,773	800,875
Transfer to (from)				
Stage 1	80,633	(80,633)	-	-
Remeasurement <sup>(a)</sup>	(33,330)	(9,832)	22,845	(20,317)
<b>Balance as at December 31, 2019</b>	<b>659,940</b>	<b>-</b>	<b>120,618</b>	<b>780,558</b>
<b>Total allowance as at December 31, 2019</b>	<b>1,885,843</b>	<b>12,879</b>	<b>173,825</b>	<b>2,072,547</b>

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

### 7 Loans and mortgages (continued)

	<b>Performing</b>		<b>Impaired</b>	
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Consumer loans</b>				
Balance as at December 31, 2017	-	-	-	111,130
Transition to IFRS 9	-	-	-	87,441
Balance as at January 1, 2018	189,523	8,696	352	198,571
Gross write-offs	(55,686)	(3,213)	(294)	(59,193)
Recoveries	2,217	128	12	2,357
Remeasurement <sup>(a)</sup>	(15,037)	2,845	996	(11,196)
<b>Balance as at December 31, 2018</b>	<b>121,017</b>	<b>8,456</b>	<b>1,066</b>	<b>130,539</b>
<b>Residential insured</b>				
Balance as at December 31, 2017	-	-	-	248,661
Transition to IFRS 9	-	-	-	(164,212)
Balance as at January 1, 2018	63,686	506	20,257	84,449
Transfer to (from)				
Stage 1	(473)	473	-	-
Stage 2	360	(360)	-	-
Remeasurement <sup>(a)</sup>	(2,635)	110	982	(1,543)
<b>Balance as at December 31, 2018</b>	<b>60,938</b>	<b>729</b>	<b>21,239</b>	<b>82,906</b>
<b>Residential uninsured</b>				
<b>Residential insured</b>				
Balance as at December 31, 2017	-	-	-	522,964
Transition to IFRS 9	-	-	-	(109,734)
Balance as at January 1, 2018	413,230	-	-	413,230
Transfer to (from)				
Stage 1	(50)	50	-	-
Remeasurement <sup>(a)</sup>	(12,210)	(50)	-	(12,260)
<b>Balance as at December 31, 2018</b>	<b>400,970</b>	<b>-</b>	<b>-</b>	<b>400,970</b>

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

### 7 Loans and mortgages (continued)

	<b>Performing</b>		<b>Impaired</b>	
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Multi-residential insured</b>				
Balance as at December 31, 2017	-	-	-	-
Transition to IFRS 9	-	-	-	3,061
Balance as at January 1, 2018	3,061	-	-	3,061
Remeasurement <sup>(a)</sup>	(548)	-	-	(548)
<b>Balance as at December 31, 2018</b>	<b>2,513</b>	<b>-</b>	<b>-</b>	<b>2,513</b>
<b>Multi-residential uninsured</b>				
Balance as at December 31, 2017	-	-	-	-
Transition to IFRS 9	-	-	-	339,594
Balance as at January 1, 2018	339,594	-	-	339,594
Remeasurement <sup>(a)</sup>	(18,258)	-	-	(18,258)
<b>Balance as at December 31, 2018</b>	<b>321,336</b>	<b>-</b>	<b>-</b>	<b>321,336</b>
<b>Non-residential</b>				
Balance as at December 31, 2017 <sup>(b)</sup>	-	-	-	1,074,416
Transition to IFRS 9	-	-	-	(187,642)
Balance as at January 1, 2018	713,067	131,853	41,854	886,774
Transfer to (from)				
Stage 2	347	(347)	-	-
Remeasurement <sup>(a)</sup>	(100,778)	(41,041)	55,919	(85,900)
<b>Balance as at December 31, 2018</b>	<b>612,637</b>	<b>90,465</b>	<b>97,773</b>	<b>800,874</b>
<b>Total allowance as at December 31, 2018</b>	<b>1,519,409</b>	<b>99,650</b>	<b>120,078</b>	<b>1,739,137</b>

a) Remeasurement includes changes in the allowance related to purchases and originations, derecognition and maturities, partial repayments and additional draws on existing facilities, and changes in estimates relating to the costs and the value of collateral reflected in the realizable value of a loan.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

### 7 Loans and mortgages (continued)

The Company closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Company will take possession of collateral to mitigate potential credit losses.

Financial assets that are credit-impaired as at December 31 and the related collateral held are shown below:

	<b>2019</b>		
	<b>Balance</b>	<b>Collateral value</b>	<b>Allowance</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Residential insured	398,911	502,500	5,241
Multi-residential uninsured	193,686	162,530	47,966
Non-residential	120,618	-	120,618
	<b>713,215</b>	<b>665,030</b>	<b>173,825</b>

	<b>2018</b>		
	<b>Balance</b>	<b>Collateral value</b>	<b>Allowance</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Consumer loans	1,099	-	1,066
Residential insured	21,239	-	21,239
Non-residential	264,273	166,500	97,773
	<b>286,611</b>	<b>166,500</b>	<b>120,078</b>

### 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***

The Company securitizes insured residential mortgage loans by participating in the NHA MBS and CMB programs. Through the programs, the Company issues securities backed by residential mortgage loans that are insured against the borrowers' default. Once the mortgage loans are securitized, the Company assigns the underlying mortgages and/or related securities to the CMHC. As an issuer of MBS, the Company is responsible for advancing all scheduled principal and interest payments to CMHC, irrespective of whether the amounts have been collected on the underlying transferred mortgages.

In these securitizations, the Company retains certain prepayment risk, timely payment guarantee risk and interest rate risk related to the transferred mortgages. Due to retention of these risks, the transferred mortgages are not derecognized, and the securitization proceeds are accounted for as secured borrowings. There are generally no ECLs on the securitized mortgage assets, as the mortgages are insured against default. Further, the investors and CMHC have no recourse to other assets of the Company in the event of failure of mortgages to pay when due.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

### 8 Mortgage backed securities (continued)

#### a) Transferred assets that do not qualify for derecognition (continued)

The following is the Company's net positions on its securitized assets and liabilities that have not been derecognized:

	2019			2018		
Carrying value	Market MBS \$	CMB \$	Total \$	Market MBS \$	CMB \$	Total \$
NHA MBS assets	155,931,145	68,186,401	224,117,546	133,514,129	69,574,256	203,088,385
Associated liabilities	155,632,819	67,981,953	223,614,772	133,256,875	69,319,393	202,576,268

#### Assets pledged as collateral

Mortgage loans are pledged against the MBS issuances. As a requirement of the NHA MBS and CMB programs, the Company assigns and transfers to CMHC all of its rights, title, and interest in existing mortgage pools. If the Company fails to make timely payment under an NHA MBS security, CMHC may enforce the assignment to CMHC of the mortgages included in all the mortgage pools backing the securities issued. If CMHC enforces the assignments, all authority and power of the Company under the terms of the NHA MBS guide, whether with respect to securities issued or mortgages pooled in the contract, shall pass to and be vested with CMHC.

#### b) Transferred assets that have been derecognized

In addition to the mortgage backed securities above, certain mortgages were sold into the CMB program and derecognized. Balances relating to these transferred assets are as follows:

	2019 \$	2018 \$
Mortgages sold	608,660,057	235,316,034
Gain on sales	3,169,065	930,909
Cumulative balance of mortgages sold and derecognized	1,608,184,103	999,524,046
Related balances as at December 31		
Retained interests	58,913,513	32,476,786
Servicing liabilities	15,112,145	7,533,393

### 9 Deposits

	2019 \$	2018 \$
Registered	6,629,400	7,487,665
Other demand	2,695,337	8,978,934
Total demand deposits	9,324,737	16,466,599
Registered	136,955,705	137,535,092
Other term	257,961,637	165,906,263
Total term deposits	394,917,342	303,441,355
	404,242,079	319,907,954

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

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(expressed in Canadian dollars)

### 10 Capital stock

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

	<b>2019</b>		<b>2018</b>	
	<b>Shares #</b>	<b>Amount \$</b>	<b>Shares #</b>	<b>Amount \$</b>
Common shares				
No par value, voting	23,058,613	23,058,613	22,101,613	22,101,613
Class A preferred shares				
No par value, non-cumulative, redeemable, non-retractable, voting	-	-	-	-
	<u>23,058,613</u>	<u>23,058,613</u>	<u>22,101,613</u>	<u>22,101,613</u>

The consideration for any shares issued or redeemed is cash. In 2019, the Company issued \$957,000 in common shares in the form of a non-cash stock dividend.

### 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 items by the earlier of the contractual repricing or maturity dates. Non-interest sensitive items are those that have no maturity date and do not pay or receive interest.

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.



# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

### 11 Financial instruments (continued)

#### a) Interest rate risk (continued)

(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 %
<b>2019</b>							
<b>Assets</b>							
Cash and investments	-	2,003	14,061	11,796	5,859	33,719	1.64
Loans and mortgages	59,801	155,416	391,294	167	(2,073)	604,605	2.74
Other assets	-	-	-	-	65,962	65,962	-
	59,801	157,419	405,355	11,963	69,748	704,286	
<b>Liabilities and equity</b>							
Deposits							
Fixed	48,007	200,513	146,397	-	-	394,917	1.58
Variable	9,325	-	-	-	-	9,325	1.00
Mortgage backed securities	2,861	35,043	186,214	-	(503)	223,615	1.91
Other liabilities	-	-	-	-	26,229	26,229	-
Equity	-	-	-	-	50,200	50,200	-
	60,193	235,556	332,611	-	75,926	704,286	
Subtotal	(392)	(78,137)	72,744	11,963	(6,178)	-	
Prepayment estimate	14,680	44,039	(58,694)	(25)	-	-	
Excess (deficiency)	14,288	(34,098)	14,050	11,938	(6,178)	-	
<b>2018</b>							
<b>Assets</b>							
Cash and investments	-	11,519	14,017	2,094	1,214	28,844	1.89
Loans and mortgages	25,640	80,705	419,099	-	(1,739)	523,705	2.29
Other assets	-	-	-	-	37,560	37,560	-
	25,640	92,224	433,116	2,094	37,035	590,109	
<b>Liabilities and equity</b>							
Borrowings	4,657	-	-	-	-	4,657	3.45
Deposits							
Fixed	29,799	132,309	141,333	-	-	303,441	1.90
Variable	16,467	-	-	-	-	16,467	0.49
Mortgage backed securities	2,694	20,315	180,079	-	(512)	202,576	3.25
Other liabilities	-	-	-	-	16,394	16,394	-
Equity	-	-	-	-	46,574	46,574	-
	53,617	152,624	321,412	-	62,456	590,109	
Subtotal	(27,977)	(60,400)	111,704	2,094	(25,421)	-	
Prepayment estimate	15,716	47,149	(62,865)	-	-	-	
Excess (deficiency)	(12,261)	(13,251)	48,839	2,094	(25,421)	-	

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

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(expressed in Canadian dollars)

### 11 Financial instruments (continued)

#### ***b) 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. As at December 31, 2019, the balance of outstanding index linked deposits was \$2,266,621 (2018 - \$2,253,792).

#### ***c) Fair value***

The following table presents the fair value 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 and balances that are statutory in nature. 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 in active markets for identical financial instruments;
- Level 2 – Inputs other than quoted prices included within level 1 that are observable either directly or indirectly; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data. This level includes equity investments and debt instruments with significant unobservable components.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

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(expressed in Canadian dollars)

### 11 Financial instruments (continued)

#### **c) Fair value** (continued)

The Company's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the year ended December 31, 2019, the Company had no transfers between fair value hierarchy levels.

For investments, corporate equities are valued using quoted market prices (Level 1) and government and corporate debt instruments are valued using market prices provided by third-party brokers (Level 2). Co-operative equities that don't have a quoted price in an active market are valued based on recent transactions. The ownership of co-operative equities is typically restricted to credit unions and other credit union system partners and is usually a condition of membership or necessary for access to the services provided by a system partner. As a result, transactions in these investments are restricted and typically occur at par value, which is the best estimate of fair value.

Given the nature of most investments in co-operative equities, specifically, the fact that investments are typically not made for the purpose of financial gain (i.e. to earn investment income), the application of valuation techniques to determine fair value are typically not in use. In limited cases where such valuation techniques have been utilized, however, that information is used in determining the fair value of the co-operative investment. The Company continues to monitor these investments for any indication that a new measure of fair value is available.

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 MBS, 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 following table summarizes the fair value measurements recognized in the balance sheet by class of asset or liability and categorized by level according to the significance of the inputs used in making the measurements.

The carrying value of cash and cash equivalents and borrowings approximate their fair value as they are short-term in nature or are receivable on demand.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

### 11 Financial instruments (continued)

#### c) Fair value (continued)

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

	Level 1	Level 2	Level 3	Total fair value	Total carrying value
	\$	\$	\$	\$	\$
<b>2019</b>					
<b>Assets</b>					
Investments	290,800	27,740,872	4,025	28,035,697	28,035,697
Loans and mortgages	-	600,026,642	-	600,026,642	604,605,159
<b>Liabilities</b>					
Deposits	-	401,677,304	-	401,677,304	404,242,079
Mortgage backed securities	-	217,045,136	-	217,045,136	223,614,772
<b>2018</b>					
<b>Assets</b>					
Investments	218,550	27,445,448	4,025	27,668,023	27,668,023
Loans and mortgages	-	523,629,772	-	523,629,772	523,705,290
<b>Liabilities</b>					
Deposits	-	316,797,772	-	316,797,772	319,907,954
Mortgage backed securities	-	207,110,125	-	207,110,125	202,576,268

There were no changes in the measurement of Level 3 investments in 2019 or 2018.

### 12 Related party transactions

#### a) Parent

The Company has a contract with its parent, Atlantic Central (Central or the Parent), 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 Central, with salaries and staff related expenses paid by the parent and allocated to the Company through a management fee.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

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(expressed in Canadian dollars)

### 12 Related party transactions (continued)

#### a) Parent (continued)

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

	2019 \$	2018 \$
Expenses and fees related to the management contract	4,316,225	5,117,641
Interest expense	1,044,528	917,131
Interest income	40,828	18,197
Rental and other expenses	118,473	179,928
Dividends	957,000	607,678
Borrowings from Central	-	4,656,832
Deposits from Central	49,263,293	51,843,293
Amounts payable to Central	801,128	722,177
Balances relating to mortgages sold		
Interest, net of administration fees	64,547	116,996
Mortgages under administration	2,513,056	2,892,372
Monthly remittances payable	29,942	163,005

#### b) 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:

	2019 \$	2018 \$
Services and equipment purchases from League Data Limited	211,018	314,203
Term deposits with League Savings	14,043,074	12,018,481
Accounts payable to League Data Limited	14,878	24,322

#### c) 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 a portion of the 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.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

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(expressed in Canadian dollars)

### 12 Related party transactions (continued)

#### c) Key management personnel (continued)

The components of total compensation received by key management personnel (including amounts paid by the Parent) <sup>(a)</sup> and balances due to/from key management personnel are as follows:

	2019 \$	2018 \$
Short-term employee benefits	1,157,299	1,148,168
Contributions to group savings for retirement program	76,045	69,902
Variable compensation	155,849	222,168
Mortgage balances due from key management	-	326,575
Deposit balances due to key management	917,829	844,951

(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:

	2019 \$	2018 \$
Remuneration	91,913	90,058
Payments for reimbursement of expenses	34,807	17,756

### 13 Commitments and contractual obligations

#### a) Management fees

The Company has contracted with Atlantic Central for the provision of services under an 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 Central, based on the scope of services provided and market terms and conditions for such services.

#### b) Approved loans and mortgages

As at December 31, 2019, the Company had approved mortgages in the amount of \$18,349,934 (2018 - \$28,782,819) which have not been advanced.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

### 14 Income taxes

The components of tax expense are as follows:

	2019 \$	2018 \$
Current tax expense		
Federal and provincial	1,675,329	900,820
Capital and large corporate tax	863,846	742,999
	<u>2,539,175</u>	<u>1,643,819</u>
Deferred tax expense		
Origination and reversal of deductible temporary differences	(88,310)	85,292
	<u>2,450,865</u>	<u>1,729,111</u>

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 income taxes. This difference results from the following:

	2019 \$	2018 \$
Income before income taxes	5,979,892	3,943,443
Statutory income tax rate	31%	31%
Expected income tax	1,853,766	1,222,468
Effect on income tax of		
Non-taxable dividends	(3,750)	(9,152)
Permanent tax differences	3,232	3,126
Capital and large corporate tax	596,054	512,669
Other	1,563	-
Total income tax expense	<u>2,450,865</u>	<u>1,729,111</u>

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

	Balance 2017 \$	Recognized in Net income	OCI	Balance 2018 \$	Recognized in Net income	OCI	Balance 2019 \$
Deferred tax assets							
Property and equipment	26,481	(1,350)	-	25,131	(1,233)	-	23,898
Allowance for impaired loans	589,872	(83,942)	-	505,930	89,543	-	595,473
Losses carried forward	155	-	-	155	-	-	155
	<u>616,508</u>	<u>(85,292)</u>	<u>-</u>	<u>531,216</u>	<u>88,310</u>	<u>-</u>	<u>619,526</u>

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

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(expressed in Canadian dollars)

### 15 Capital requirements

The Company manages its capital under guidelines established by the 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.

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.

As of January 2019, under the BCBS rules League Savings is required to meet new minimum requirements of: Common Equity Tier 1 (CET1) 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% CET1 target, by the first quarter of 2013.

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.



# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

### 15 Capital requirements (continued)

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

	2019 \$	2018 \$
Risk-weighted assets for		
Credit risk	252,247,000	194,615,500
Operational risk	21,700,000	20,538,000
Total	273,947,000	215,153,500
Capital elements		
Common shares	23,059,000	22,102,000
Contributed surplus	1,786,000	1,786,000
Accumulated OCI	24,000	(73,000)
Retained earnings	25,332,000	22,760,000
CET1	50,201,000	46,575,000
Total Tier 1 capital	50,201,000	46,575,000
Stage 1 and Stage 2 allowance	1,901,000	-
Total Tier 2 capital	1,901,000	-
Total regulatory capital	52,102,000	46,575,000
	%	%
Ratios		
CET1	18.4	21.6
Total Tier 1	18.4	21.6
Total capital	19.1	21.6
Leverage Ratio	7.2	7.8
OSFI targets		
CET1	7.0	7.0
Total Tier 1	8.5	8.5
Total capital	10.5	10.5
Leverage Ratio	4.0	4.0

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 Central, bearing interest at prime, up to an amount of \$20,000,000. As at December 31, 2019, the amount outstanding on this facility was \$nil (2018 - \$4,656,832).

On January 29, 2019, the Company entered into a line of credit agreement with Concentra Bank bearing interest at 3-month CDOR plus 1.00%, up to an amount of \$25,000,000. The facility is secured by a charge over insured residential mortgages covering 110% of the loan facility.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2019

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(expressed in Canadian dollars)

### 17 Assets under administration

#### a) Mortgages 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. As at December 31, the Company had assets under administration as follows:

	2019 \$	2018 \$
Mortgages under administration	90,217,088	106,672,700

### 18 Non-interest income (expense)

Non-interest income includes the following:

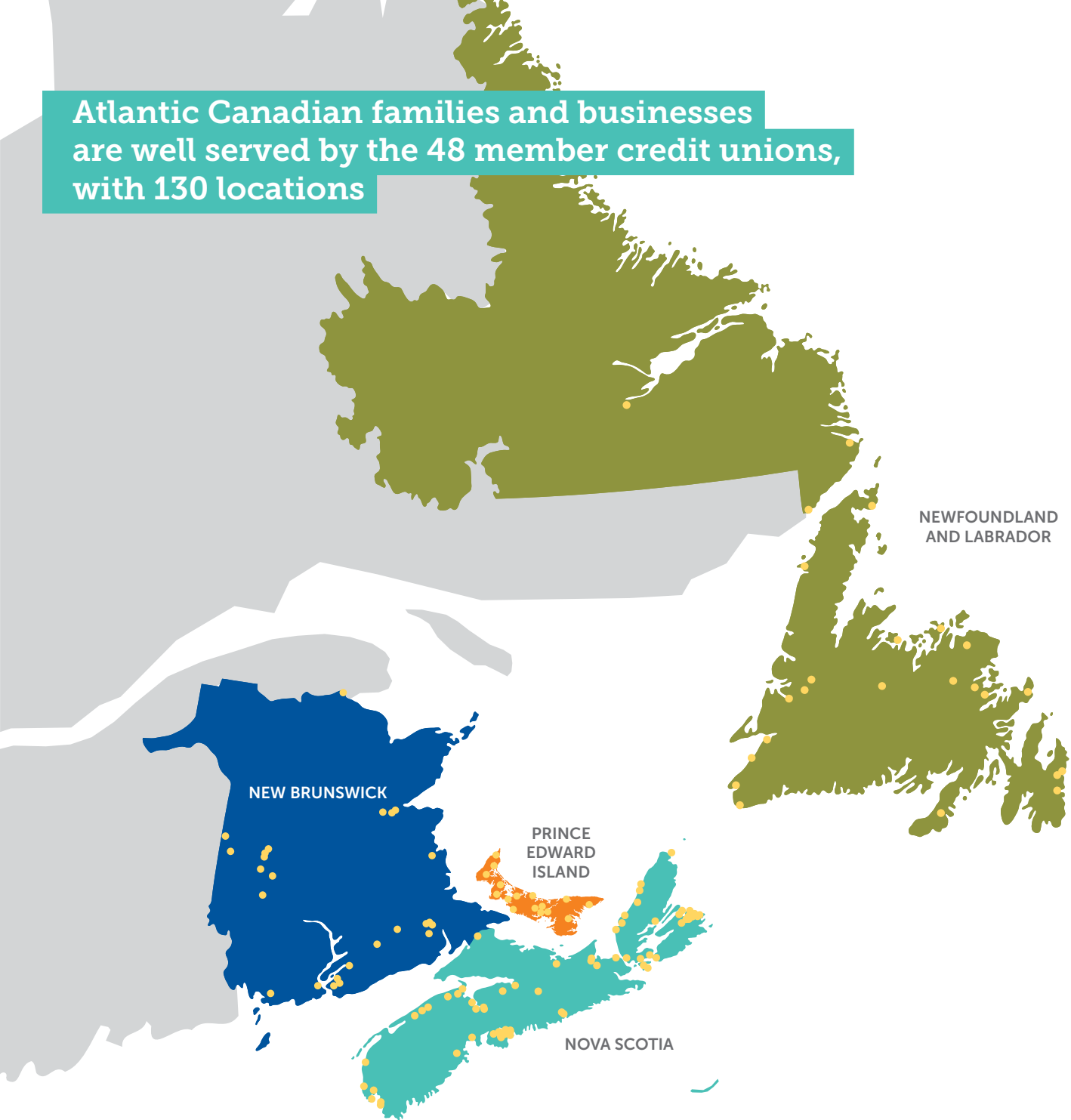
	2019 \$	2018 \$
Securitization expenses	(360,657)	(406,309)
Other lending service fees	407,450	826,428
Lending service expenses	(972,620)	(207,458)
Investment service fees	27,177	25,201
Investment service expenses	(150,000)	(144,617)
Other	66,387	3,065
	<u>(982,263)</u>	<u>96,310</u>

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

### 19 Initiatives and restructuring

In 2018, Management made the decision to outsource its retail mortgage administration function. The costs relating to this restructuring are reported in initiatives and restructuring expenses.

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