

# Better Together!



*Unity is strength... when there is teamwork and collaboration, wonderful things can be achieved.*

Mattie Stepanek

## Better Together!

If there is a silver lining from living and working in the midst of a global pandemic it is this: *there is a greater appreciation for the good that comes from working together for a common purpose.* This has played out time and again within our own organizations and among businesses across the country and worldwide. As cooperative organizations, collaboration and teamwork are intrinsic to our business model. The financial services industry is on a path of accelerated transformation, and fostering strategic partnerships is a fundamental component to achieving success.

This is not a new concept for Atlantic Central and League Savings and Mortgage or our community of credit unions in Atlantic Canada. We understand and appreciate the value of tapping into strengths and expertise from across a diverse playing field to drive growth, enable innovation and deliver solutions credit unions and their members need now and in the future.

Our organizations will continue to support and encourage a collaborative approach to ensure we are well positioned to manage the challenges and embrace the opportunities in our changing landscape. The future is full of promise, and together, the Atlantic credit union community will remain a strong and enduring presence for our members and the communities we serve.

## Chair's Message



In the face of challenges, expected and unexpected, League Savings performed strongly in 2022 with total assets (on and off-balance sheet) of over \$4.3B and an operating efficiency ratio under 50%. With a firm focus on strengthening our financial performance to support credit union growth, I'm pleased to report that our business objectives and financial goals were met.

A key priority for the board in 2022 was to recruit and hire a new President and CEO following Michael Leonard's retirement at the end of May. Significant time was spent determining the skills and experience required to lead League Savings into the future. We were pleased to appoint Paul Masterson to the role, who joined us in November. Paul brings over 30 years of national and global experience in the financial services industry and we are confident League Savings will see continued success under his leadership.

The market uncertainty throughout 2022 combined with continued regulatory changes from OSFI (Office of the Superintendent of Financial Institutions) and CMHC (Canada Mortgage and Housing Corporation) proved especially challenging for League Savings. Margin compression led to a significant increase in the cost of funds, and we expect this will continue in 2023. Mortgage volumes slowed considerably which was not unexpected given the low housing inventory and rising mortgage rates. To mitigate the impacts of the market slowdown, League Savings pursued opportunities to expand our residential markets outside of Atlantic Canada through our relationships with brokers and other system partners.

A key component of our strategy is partnering with like-minded organizations. Wyth Financial (formerly Concentra Bank) has been a significant business partner for League Savings for many years. Although its sale to Equitable Bank (EQ) slowed planned asset purchases in 2022, we are confident that EQ is committed to maintaining a solid relationship with us and we look forward to new opportunities as a result.

League Savings began preparing for the core banking conversion in 2022 with the company moving to the new platform in 2024. It is a substantial undertaking with a large team of subject matter experts to support every phase of the project. We also focused on our cyber security program and this work will continue into 2023.

Our annual board planning session was held jointly with Atlantic Central in September where we reconfirmed our commitment to collaborate on important system initiatives. The outcome of the planning session was to maintain our current strategy to allow sufficient time for our new CEO to fully onboard with the expectation that it will be reviewed again in Q2 2023.

Strong governance plays a critical role in ensuring the organization's operations align with the interests of all its stakeholders. The board also recognizes the role it plays in ethical decision-making and financial viability. Evolving our governance model is a focus for League Savings. In 2022 we commissioned an independent governance review and look forward to credit unions participating in the review in early 2023.

League Savings plays a critical role in the funding model for Atlantic Central. It is the power of the two companies working together that enable us to achieve efficiencies so we can better serve our credit unions.

On behalf of the board of directors, I want to thank the management and staff of League Savings. Your work is truly commendable and your dedication to the organization and the Atlantic credit union system is second to none. I want to recognize Kim Walker, COO, who took on the additional role of interim CEO prior to Paul Masterson's arrival. Under her steady guidance and leadership, we remained on course to achieve our business goals. We are on a journey of transformation, and I look forward to what the future has in store.

A handwritten signature in black ink, reading "R. Surette".

Raymond Surette, Chair  
League Savings and Mortgage Company  
Board of Directors

## CEO's Message



I am honoured to present my first annual report message since joining League Savings and Mortgage as President and CEO. While it's fair to say the words “financial services” and “disruption” have been repeated together more often over the past two to three years than ever before, I am struck by our adaptability as an organization, and the entire Atlantic credit union system. It speaks to the expertise of our employees and the deep collaboration that exists in Atlantic Canada. While our industry will most certainly continue to be disrupted, I am confident that together we will make the most out of the opportunities that lie ahead.

### Highlights from 2022

#### *Financial Performance*

League Savings saw one of its best years to date. Diversifying our product portfolio and sourcing new business channels has allowed us to grow in a sustainable manner and has opened doors for future transactions that will benefit the organization and support credit union growth.

#### *Regional Syndication Program*

We achieved what we set out to do in our 2022 business strategy and saw significant growth in many areas. The regional Loan Syndication Program continues to perform extremely well hitting more than \$473M in 2022. The program generates significant interest income for credit unions and in 2022, we reached a record high of \$12.85M.

#### *Investing in our Communities*

We are committed to helping our communities grow well. We recognize the critical need for affordable housing options in communities across the region and remain focused on expanding our portfolio in this area. In addition, League Savings has established a strong presence in the construction financing space and our commercial book continues to grow.

#### *Securitization*

Our securitization business remained a key component of our strategy through the CMHC MBS funding and Multi-Residential pool programs. This contributed significantly to LSM profitability, realizing over \$2M in revenue in 2022, and more than \$14M in pool gains over the last 5 years.

#### *Sale of Wyth Financial (formerly Concentra Bank)*

League Savings has developed important relationships with system partners in Atlantic Canada and across the country in pursuit of high value business opportunities. A key partner for us and credit unions has been Wyth Financial. The sale of Wyth Financial to Equitable Bank closed in the fall of 2022 and while there may be concerns over the loss of such a valuable business partner, Equitable Bank is committed to continuing their relationship with League Savings and enhancing services for credit unions in ways that benefit them and their members. I look forward to strengthening our relationship with Equitable Bank and hearing more about their innovative solutions and how they will add value for credit unions.

In closing, I want to thank the board of directors for their support and encouragement over the past few months, and my team whose dedication is key to League Savings' success. I've enjoyed spending time getting to know you and commend your commitment to our credit unions. I firmly believe this is a testament to the strong culture that exists within the organization. To our credit union partners, I'm excited about the future and I look forward to continuing our work building a stronger and more successful credit union system.

A stylized, handwritten signature in black ink, consisting of a large, sweeping 'P' followed by a series of connected loops and a final horizontal stroke.

Paul Masterson  
President and CEO

## Highlights

### Balance Sheet

Assets **\$811.9M** (\$772.6M in 2021)

Deposits **\$464.5M** (\$417.8M in 2021)

Total regulatory capital **\$75.6M** (\$74.2M in 2021)

Efficiency ratio **52%** (35% in 2021)

### Syndication Portfolio

Grew

**398M**

2021

**473.15M**

2022

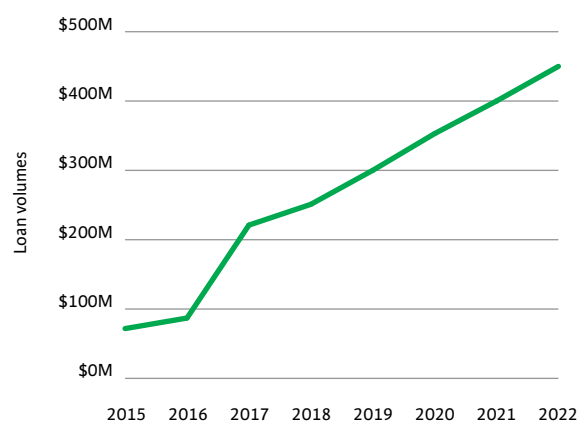
Generated a record high net interest income to credit unions.

**9.6M**

2021

**12.85M**

2022



## Highlights

### Loan and Mortgage Portfolio

**\$406.5M** Residential (395.9M in 2021)

**\$243.6M** Commercial (207.7M in 2021)

**\$2.3M** Commercial leases (3.2M in 2021)

Affordable housing transactions **\$17M** (\$34M funded in 2021)



CMB pools – purchased **\$534M** (\$633M in 2021)

Gains of **\$2M** to LSM (\$3.7M in 2021)

**1,761** loan applications adjudicated and responded to within 24 hours of receipt

Represents **\$617M** in new commercial loans

### Syndication Loans

**\$169M**  
(174M in 2021)

**\$109M** for credit unions

**\$60M** to system partners

## Highlights

### Securitization Program

	2021	2022
Multiresidential insured securitization	\$633M	<b>\$534M</b>
Total CMB off-balance sheet assets generated returns to LSM	\$3.0B	<b>\$3.5B</b>
	\$3.7M	<b>\$2.0M</b>
Total MBS funding	\$234M	<b>\$229M</b>

### Better Earth Portfolio

There is increasing consideration being given to a company's environmental impact as well as its financial performance when making investment decisions. League Savings' market linked product allows members to invest in companies that were selected based on their initiatives to reduce the environmental impact of their operations by either reducing their greenhouse gas emissions or water consumption, while also offering a principle investment guarantee.

**\$969,734** Total sales

It's easy to invest **green**.  
We guarantee it.



Total invested at December 31, 2022 = **\$22.8M+**

## Management Team



Paul Masterson  
President & CEO



Don Noyes  
VP Finance & Chief  
Financial Officer



Kim Walker  
Chief Operating Officer



Brenda Roberts-Harmon  
VP General Counsel  
& Chief Risk Officer



Paul Paruch  
VP Digital & Payments



# 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 ensure its independence from management.

## Board Composition

The board of directors of League Savings consists of 12 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;
- One director appointed by LSM board to fill the need for identified competencies; and
- Six directors appointed by the sole Common Shareholder, League Savings' parent, Atlantic Central (Central).

As noted previously, the board appoints a director to fill the need for identified competencies. In March 2021, the board appointed Corina Farbacher to fill this role.

The following individuals currently serve on the board of directors:

Raymond Surette, Chair  
Pat Duffield, Vice-Chair  
Corina Farbacher  
Jim MacFarlane  
William Marr  
Sarah Millar  
Gary O'Brien  
Carol Ripley  
George Smith  
William Timmons  
Sally van de Wiel  
Thomas Vickers

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 five times in 2022.

# Corporate Governance

## Committees of the board

The board has established the following standing committees: Audit; Risk; Conduct Review; Co-operative Social Responsibility; Executive, Human Resource and Compensation; 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 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 management has developed and maintains an effective Enterprise Risk Management Framework for evaluating the business strategies being used for the allocation of human resources, capital, and other resources. The Conduct Review Committee is responsible for ensuring 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), Corina Farbacher, William Marr, George Smith, and Thomas Vickers.

### 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), Lisa Loughery (AC), Sarah Millar, William Timmons, and Thomas Vickers.

### Executive, Human Resource and Compensation 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, for approving credit applications that are above management lending limits, and also acts as a Human Resources Committee.

Committee members: Raymond Surette (Chair), Sally van de Wiel (Vice-Chair), Jim MacFarlane, and Sarah Millar.

# Corporate Governance

## 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 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: Pat Duffield (Chair), Jim MacFarlane, Raymond Surette, and Sally van de Wiel.

## Mandate of the Board of Directors

While the board's fundamental responsibility is to oversee the management of the business and affairs of League Savings, any responsibility that is not specifically delegated to the President and CEO remains with the board. In particular, the board oversees League Savings' strategic direction to ensure it serves the organization, 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, and
- reviewing the financial performance and condition of the organization.

# Corporate Governance

## 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 2022.

Name	Board Meetings and Planning Session	Audit, Risk & Conduct Review Committees	Co-operative Social Responsibility Committee	Executive, HR & Compensation Committee	Governance Committee
Raymond Surette*	7/7			19/20	4/4
Pat Duffield*	7/7			6/6	4/4
Jim MacFarlane*	7/7			18/20	4/4
Corina Farbacher	7/7	3/4			
William Marr	7/7	3/4			
Sarah Millar	7/7		3/4	10/14	
Gary O'Brien	7/7		4/4		
Carol Ripley	7/7	4/4			
George Smith	7/7	4/4			
William Timmons	7/7		3/3		1/1
Sally van de Wiel	7/7			13/14	3/4
Thomas Vickers	6/7	2/4	4/4		

\*Table Officer

## Corporate Governance



Raymond Surette, Chair



Pat Duffield, Vice-Chair



Jim MacFarlane



Corina Farbacher



William Marr



Sarah Millar



Gary O'Brien



Carol Ripley



George Smith



William Timmons



Sally van de Wiel



Thomas Vickers

### Board Evaluations

As part of its commitment to ongoing development and improvement, the board conducts an annual self-evaluation. This evaluates 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; 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 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 so League Savings can continue to lead the credit union system with its governance practices. Over the past several years, League Savings has increased its focus on diversity and inclusion.

# League Savings and Mortgage Company

We partner with industry leaders to create opportunities for successful growth of the Atlantic credit union system and the communities we serve.

## ABOUT LEAGUE SAVINGS AND MORTGAGE

League Savings and Mortgage Company is an OSFI federally regulated financial institution incorporated under the Trust and Loan Companies Act (Canada).

The company has been a trusted credit union partner providing a broad range of products and services to help support credit union growth and their members achieve financial success since 1966.

League Savings has developed strategic partnerships with organizations like Wyth Financial, MCAP, People's Trust, National Bank and, as a participant, in the CANNEX Nominee Channel. These partnerships provide opportunities to expand into new and higher yielding markets so we can diversify our balance sheet and improve profitability, which in turn, will generate improved returns for our shareholders. In addition, League Savings is:

- a member of the Canada Deposit Insurance Corporation
- approved under Sagen and CMHC mortgage insurers
- approved under CMHC's securitization program
- able to operate coast to coast to coast due to its Federal Charter

# **League Savings and Mortgage Company**

Financial Statements

**December 31, 2022**

(expressed in Canadian dollars)

## **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 has appointed an Audit Committee which reviews 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 or the Company) 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 the shareholder.



Paul Masterson, CPA, CA  
President and CEO



Donald M. Noyes, CPA, CA  
Vice President Finance and CFO





## Independent auditor's report

To the Shareholder 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, 2022 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### What we have audited

The Company's financial statements comprise:

- the balance sheet as at December 31, 2022;
- the statement of income for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in shareholder's 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 significant accounting policies and other explanatory information.

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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.

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 2, 2023

# League Savings and Mortgage Company

## Balance Sheet

As at December 31, 2022

	Note	2022 \$	2021 \$
<b>Assets</b>			
Cash and cash equivalents		6,653,643	26,144,195
Restricted cash		5,206,791	2,424,001
Investments	6	26,282,256	28,318,525
Loans and mortgages	7	651,020,126	606,423,864
Accrued interest		1,510,339	1,145,941
Deferred tax assets	14	598,393	599,548
Securitization assets	8	112,984,050	101,811,321
Income tax receivable		1,450,917	125,614
Capital tax receivable		132,027	-
Other assets		6,018,954	5,624,771
		<u>811,857,496</u>	<u>772,617,780</u>
<b>Liabilities</b>			
Borrowings	16	-	-
Deposits	9	464,496,926	417,791,902
Accrued interest		4,809,612	2,370,200
Accounts payable and accrued liabilities		6,535,412	10,364,763
Servicing liabilities		33,479,854	35,834,245
Capital tax payable		-	96,466
Income tax payable		-	-
Mortgage-backed securities	8	<u>228,845,888</u>	<u>233,922,763</u>
		<u>738,167,692</u>	<u>700,380,339</u>
<b>Shareholder's equity</b>			
Capital stock	10	37,857,854	36,715,987
Contributed surplus		1,785,887	1,785,887
Retained earnings		35,399,099	33,712,774
Accumulated other comprehensive income (loss)		<u>(1,353,036)</u>	<u>22,793</u>
		<u>73,689,804</u>	<u>72,237,441</u>
		<u>811,857,496</u>	<u>772,617,780</u>

### Commitments and contractual obligations

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### Approved on Behalf of the Board



Paul Masterson, CPA, CA  
President and CEO



Ray Surette  
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, 2022

	Note	2022 \$	2021 \$
<b>Financial income</b>			
Investment income		615,889	478,218
Interest on loans and mortgages		24,249,954	22,419,126
		24,865,843	22,897,344
<b>Financial expense</b>		12,977,426	9,963,513
Gross financial margin		11,888,417	12,933,831
Provision for credit losses (recoveries)		328,109	(669,229)
Net financial margin		11,560,308	13,603,060
Securitization gains	8	2,012,509	3,697,326
Non-interest expense	18	(1,436,957)	(1,444,277)
		12,135,860	15,856,109
<b>Operating expenses</b>			
Management fees	12	5,298,818	4,593,980
Office expense		302,724	346,580
Democracy		370,234	216,281
Professional fees		206,741	150,916
Other expenses		169,252	254,093
		6,347,769	5,561,850
<b>Operating income</b>		5,788,091	10,294,259
Capital tax	14	1,804,702	1,761,466
Income taxes	14	1,155,197	2,471,457
<b>Net income for the year</b>		2,828,192	6,061,336

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, 2022

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	Note	2022 \$	2021 \$
<b>Net income for the year</b>		<u>2,828,192</u>	<u>6,061,336</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		(1,937,787)	(896,957)
Income tax expense (recovery)	14		
On unrealized gains (losses) on mark to market investments		<u>561,958</u>	<u>260,118</u>
<b>Other comprehensive income (loss)</b>		<u>(1,375,829)</u>	<u>(636,839)</u>
<b>Comprehensive income</b>		<u>1,452,363</u>	<u>5,424,497</u>

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

# League Savings and Mortgage Company

## Statement of Changes in Shareholder's Equity

For the year ended December 31, 2022

	Common shares \$ (note 10)	Contributed surplus \$	Retained earnings \$	Accumulated other comprehensive income (loss) \$	Total equity \$
<b>Year ended December 31, 2022</b>					
<b>Balance – Beginning of year</b>	36,715,987	1,785,887	33,712,774	22,793	72,237,441
Net income	-	-	2,828,192	-	2,828,192
Other comprehensive income (loss), net of tax	-	-	-	(1,375,829)	(1,375,829)
Comprehensive income (loss)	-	-	2,828,192	(1,375,829)	1,452,363
Shares issued	-	-	-	-	-
Shares redeemed	-	-	-	-	-
Stock dividend	1,141,867	-	(1,141,867)	-	-
<b>Balance – End of year</b>	<b>37,857,854</b>	<b>1,785,887</b>	<b>35,399,099</b>	<b>(1,353,036)</b>	<b>73,689,804</b>
<b>Year ended December 31, 2021</b>					
<b>Balance – Beginning of year</b>	25,873,258	1,785,887	28,494,167	659,632	56,812,944
Net income	-	-	6,061,336	-	6,061,336
Other comprehensive income (loss), net of tax	-	-	-	(636,839)	(636,839)
Comprehensive income (loss)	-	-	6,061,336	(636,839)	5,424,497
Shares issued	10,000,000	-	-	-	10,000,000
Shares redeemed	-	-	-	-	-
Stock dividend	842,729	-	(842,729)	-	-
<b>Balance – End of year</b>	<b>36,715,987</b>	<b>1,785,887</b>	<b>33,712,774</b>	<b>22,793</b>	<b>72,237,441</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, 2022

	2022 \$	2021 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income for the year	2,828,192	6,061,336
Adjustments		
Loans and mortgages, net	(44,596,262)	(15,050,294)
Deposits, net	46,705,024	45,570,786
Mortgage-backed securities, net	(5,076,875)	(4,773,410)
Interest receivable/payable, net	2,075,014	(486,682)
Income taxes receivable/payable, net	(1,325,303)	(173,946)
Deferred tax assets, net	1,155	181,953
Other items, net	(17,979,147)	(8,497,602)
	<u>(17,368,202)</u>	<u>22,832,141</u>
<b>Financing activities</b>		
Net proceeds from issuance (redemption) of capital	<u>-</u>	<u>10,000,000</u>
<b>Investing activities</b>		
Investments, net	<u>660,440</u>	<u>166,944</u>
<b>Net change in cash and cash equivalents during the year</b>	<u>(16,707,762)</u>	<u>32,999,085</u>
<b>Cash and cash equivalents – Beginning of year</b>	<u>28,568,196</u>	<u>(4,430,889)</u>
<b>Cash and cash equivalents – End of year</b>	<u>11,860,434</u>	<u>28,568,196</u>
<b>Cash and cash equivalents include</b>		
Cash and balances with financial institutions	6,653,643	26,144,195
Restricted cash	5,206,791	2,424,001
Cash from borrowings	<u>-</u>	<u>-</u>
	<u>11,860,434</u>	<u>28,568,196</u>
<b>Supplemental disclosure of cash flow information</b>		
Interest received	24,488,195	23,186,607
Dividends received	13,250	13,094
Interest paid	10,538,014	10,752,552
Income taxes paid, net of refunds	1,917,386	2,203,332

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, 2022

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### 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.

The financial statements were authorized for issue by the Board of Directors on March 2, 2023.

### 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 a 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 maturing within one year, 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

There were no changes in accounting policies during the year that had a significant impact on the Company.

#### Future changes in accounting policies

There are no changes in accounting policies, which have been issued but are not yet effective, that have a significant impact on the Company.

### 4 Summary of significant accounting policies

#### Cash and cash equivalents

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

Restricted cash includes cash balances segregated and held with financial institutions for specific mortgage-backed securities (MBS) program clearing activities.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

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### 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 (ECLs) 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 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.

#### *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.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

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### *Classification and subsequent measurement*

Assets carried at amortized cost are measured as outlined above.

### **Leases**

The Company classifies a contract, or component of a contract, as a lease if it conveys a right to control the use of an identifiable asset for a period in exchange for consideration.

At inception, the Company classifies a lease that transfers substantially all the risks and rewards incidental to ownership of the underlying asset as a finance lease. All other leases are classified as operating leases. When assets are held subject to a finance lease, the Company recognizes a finance lease receivable in the balance sheet representing its net investment in the lease. Interest income is recognized over the term of the lease using the implicit interest rate, which reflects a constant rate of return. For operating leases, the Company recognizes lease payments received as income on a straight-line basis over the term of the lease.

### **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 FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is included in interest on 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

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

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- 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 criterion, 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.

### *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; the loss allowance recognized during the period was therefore limited to 12-month 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.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

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### ***Modifications of loans***

The Company sometimes renegotiates or otherwise modifies the contractual cash flows of loans. When this happens, the Company assesses whether 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; and
- 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).

### ***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.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

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### ***Financial liabilities***

Other financial liabilities, including borrowings and deposits, 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 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 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.

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

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

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

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. This occurs when 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 akin to pledged assets and the cash proceeds from securitization are recognized akin to secured liabilities as the mortgages are being pledged against the cash borrowed.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

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### *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.

### **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.

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 OCI.

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 that is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

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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 allows 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 as 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.

Though the Company operates without restrictions due to the COVID-19 pandemic, the outlook for Canada is subject to several risks that could lead to an economic downturn, including, persistent high inflation and further increases in interest rates, an escalation of the conflict in Ukraine, and the pandemic. A significant housing market correction could also occur if monetary policy becomes overly restrictive to control inflation.

Due to the unprecedented nature of this economic environment, developing reliable estimates and applying judgment remains difficult. Consideration is given to the several risks to the economic outlook of Canada, however, significant measurement uncertainty exists in determining ECLs and measurement is subject to significant judgment.

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 that 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.



# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

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### *ECL 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 (i.e. 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.

## **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, 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.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

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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 Risk Committee (MRC) is responsible for the review and evaluation of the financial risks and performance of the Company, including the management of:

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

The MRC 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.

### 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.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

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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.

### *ECL measurement*

IFRS 9, Financial instruments, 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 monthly 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 (i.e. using internal watch lists for monitoring the credit risk of borrowers); and

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

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- 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 (i.e. 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.

### *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.

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.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

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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.

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 as at December 31, 2022 was \$229,962 (2021 – \$9,479).

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

### **Liquidity risk**

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

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

The Company has established policies to ensure that it is able to generate sufficient funds to meet all 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.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

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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;
- monitoring economic, market, and local trends and forecasting future cash flow requirements;
- utilizing lines of credit to fund temporary needs and selling or securitizing mortgage pools to meet longer term requirements;
- stress testing scenarios to determine the ability to withstand various unanticipated events; 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 is detailed in note 11.

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

### Market risk

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

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

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

	2022 \$	2021 \$
100 basis point increase	32,960	201,740
100 basis point decrease	(32,960)	(300,870)

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.

	2022		2021	
	Cost \$	Market value \$	Cost \$	Market value \$
Government debt	28,041,257	26,023,406	28,135,814	27,997,750
Co-operative equities	100	100	4,025	4,025
Corporate equities	50,000	258,750	50,000	316,750
	28,091,357	26,282,256	28,189,839	28,318,525

## 7 Loans and mortgages

As at December 31, 2022, loans are presented net of ECLs. Loans are initially measured at fair value and are subsequently measured at amortized cost.

	Total loans \$	Allowance for credit losses \$	Net loans \$
<b>2022</b>			
Residential	406,538,934	561,984	405,976,950
Commercial	243,631,420	1,344,445	242,286,975
Commercial leases	2,348,462	406,282	1,942,180
Other	846,141	32,119	814,022
	653,364,957	2,344,831	651,020,126
<b>2021</b>			
Residential	395,969,697	474,954	395,494,743
Commercial	207,718,661	1,400,989	206,317,672
Commercial leases	3,212,446	50,288	3,162,158
Other	1,519,926	70,635	1,449,291
	608,420,730	1,996,866	606,423,864

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

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 ECL, Stage 2 represents those performing loans carried with a lifetime ECL 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.

	<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>2022</b>				
Residential	405,531,868	644,134	362,932	406,538,934
Commercial	243,535,714	-	95,706	243,631,420
Commercial leases	1,579,491	-	768,971	2,348,462
Other	843,303	1,449	1,389	846,141
	<u>651,490,376</u>	<u>645,583</u>	<u>1,228,998</u>	<u>653,364,957</u>
<b>2021</b>				
Residential	395,064,553	700,872	204,273	395,969,697
Commercial	207,718,661	-	-	207,718,661
Commercial leases	3,212,446	-	-	3,212,446
Other	1,516,836	2,152	937	1,519,926
	<u>607,512,496</u>	<u>703,024</u>	<u>205,210</u>	<u>608,420,730</u>

### 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 derecognized 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 unwinding 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, 2022

The following table presents the reconciliation of allowances for credit losses for each loan category according to ECL impairment stage:

	<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>Residential</b>				
Balance as at December 31, 2021	467,974	6,246	734	474,954
Transfer to (from)				
Stage 1	(27,336)	3,199	24,138	-
Stage 2	2,594	(2,594)	-	-
Recoveries	-	-	9,631	9,631
Remeasurement	110,108	(2,985)	(29,723)	77,400
<b>Balance as at December 31, 2022</b>	<b>553,339</b>	<b>3,866</b>	<b>4,779</b>	<b>561,984</b>
<b>Commercial</b>				
Balance as at December 31, 2021	1,400,990	-	-	1,400,990
Transfer to (from)				
Stage 1	1,039	-	(1,039)	-
Stage 2	-	-	-	-
Gross write-offs	-	-	(4,427)	(4,427)
Recoveries	-	-	15,000	15,000
Remeasurement <sup>(a)</sup>	(57,584)	-	(9,534)	(67,117)
<b>Balance as at December 31, 2022</b>	<b>1,344,445</b>	<b>-</b>	<b>-</b>	<b>1,344,445</b>
<b>Commercial leases</b>				
Balance as at December 31, 2021	50,288	-	-	50,288
Transfer to (from)				
Stage 1	(367,493)	-	367,493	-
Stage 2	-	-	-	-
Gross write-offs	-	-	-	-
Recoveries	-	-	-	-
Remeasurement <sup>(a)</sup>	339,002	-	16,992	355,994
<b>Balance as at December 31, 2022</b>	<b>21,797</b>	<b>-</b>	<b>384,485</b>	<b>406,282</b>
<b>Other</b>				
Balance as at December 31, 2021	68,386	1,312	937	70,635
Transfer to (from)				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Gross write-offs	(9,385)	(263)	(369)	(10,017)
Recoveries	8,736	245	343	9,324
Remeasurement <sup>(a)</sup>	(37,788)	(512)	478	(37,823)
<b>Balance as at December 31, 2022</b>	<b>29,949</b>	<b>781</b>	<b>1,389</b>	<b>32,119</b>
<b>Total allowance as at December 31, 2022</b>	<b>1,949,530</b>	<b>4,647</b>	<b>390,653</b>	<b>2,344,831</b>

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
<b>Residential</b>				
Balance as at December 31, 2020	615,463	8,779	1,273	625,515
Transfer to (from)				
Stage 1	(4,922)	4,922	-	-
Stage 2	1,095	(1,095)	-	-
Remeasurement	(143,663)	(6,360)	(539)	(150,562)
<b>Balance as at December 31, 2021</b>	<b>467,974</b>	<b>6,246</b>	<b>734</b>	<b>474,954</b>
<b>Commercial</b>				
Balance as at December 31, 2020	1,806,787	-	-	1,806,787
Transfer to (from)				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Gross write-offs	-	-	(596)	(596)
Recoveries	-	-	53,500	53,500
Remeasurement <sup>(a)</sup>	(405,798)	-	(52,904)	(458,702)
<b>Balance as at December 31, 2021</b>	<b>1,400,989</b>	<b>-</b>	<b>-</b>	<b>1,400,989</b>
<b>Commercial leases</b>				
Balance as at December 31, 2020	-	-	-	-
Transfer to (from)				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Gross write-offs	-	-	-	-
Recoveries	-	-	-	-
Remeasurement <sup>(a)</sup>	50,288	-	-	50,288
<b>Balance as at December 31, 2021</b>	<b>50,288</b>	<b>-</b>	<b>-</b>	<b>50,288</b>
<b>Other</b>				
Balance as at December 31, 2020	183,623	3,263	1,708	188,594
Transfer to (from)				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Gross write-offs	(19,079)	(352)	(219)	(19,650)
Recoveries	12,157	225	140	12,522
Remeasurement <sup>(a)</sup>	(108,314)	(1,824)	(692)	(110,830)
<b>Balance as at December 31, 2021</b>	<b>68,386</b>	<b>1,312</b>	<b>937</b>	<b>70,635</b>
<b>Total allowance as at December 31, 2021</b>	<b>1,987,637</b>	<b>7,557</b>	<b>1,671</b>	<b>1,996,866</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, 2022

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>2022</b>		
	<b>Balance</b>	<b>Collateral value</b>	<b>Allowance</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Residential	362,932	470,350	4,779
Commercial	95,706	399,000	-
Commercial leases	768,971	384,485	384,485
Other	1,389	-	1,389
	<b>1,228,998</b>	<b>1,253,835</b>	<b>390,653</b>
	<b>2021</b>		
	<b>Balance</b>	<b>Collateral value</b>	<b>Allowance</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Residential	204,273	215,000	734
Commercial	-	-	-
Commercial leases	-	-	-
Other	937	-	937
	<b>205,210</b>	<b>215,000</b>	<b>1,671</b>

### Commercial leases

The carrying value of finance leases of certain commercial equipment where the Company is the lessor includes the following:

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Minimum lease payments receivable:		
Not later than one year	971,604	825,590
Between one and five years	1,530,337	2,699,021
Later than five years	-	33,280
	<b>2,501,941</b>	<b>3,557,891</b>
Unearned finance income	<b>(153,479)</b>	<b>(345,445)</b>
Gross commercial leases receivable	<b>2,348,462</b>	<b>3,212,446</b>

The average weighted term to maturity of the commercial leases is 40 months. The average weighted interest rate on the current receivable is 4.24%.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

### 8 Mortgage-backed securities

Balances relating to MBS 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 benefit from credit insurance. 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.

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

Carrying value	2022			2021		
	Market MBS \$	CMB \$	Total \$	Market MBS \$	CMB \$	Total \$
NHA MBS assets	201,517,572	31,268,873	232,786,445	192,055,624	42,395,864	234,451,488
Associated liabilities	197,619,866	31,226,022	228,845,888	191,594,362	42,328,401	233,922,763

NHA MBS assets are recognized on the balance sheet and are included as part of loans and mortgages.

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

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

	2022 \$	2021 \$
Mortgages sold	533,828,514	633,302,340
Gain on sales	2,012,509	3,697,326
Cumulative balance of mortgages sold and derecognized	3,542,199,714	3,008,371,200
Outstanding balance of mortgages sold and derecognized	2,953,352,697	2,666,438,303
Related balances as at December 31		
Retained interests	112,984,050	101,811,321
Servicing liabilities	33,479,854	35,834,245

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

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### 9 Deposits

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Registered	7,859,868	8,241,037
Other demand	2,864,058	2,785,095
Total demand deposits	10,723,926	11,026,132
Registered	132,785,006	128,993,651
Other term	320,987,994	277,772,119
Total term deposits	453,773,000	406,765,770
	464,496,926	417,791,902

### 10 Capital stock

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

	<b>2022</b>		<b>2021</b>	
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
Common shares				
No par value, voting	37,857,854	37,857,854	36,715,987	36,715,987

In 2022, the Company issued \$nil (2021 – \$10,000,000) in common shares and an additional \$1,141,867 (2021 – \$842,729) in common shares in the form of a non-cash stock dividend.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

### 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 on historical trends for these types of payments.

(Reported in \$000's)	Within 3 months \$	3 months to 1 year \$	1 year to 5 years \$	Over 5 years \$	Non- interest sensitive \$	Total \$	Average rate %
<b>2022</b>							
<b>Assets</b>							
Cash and investments	5,000	3,493	19,844	4,705	5,101	38,143	1.93
Loans and mortgages	64,398	134,298	448,584	6,085	(2,345)	651,020	4.03
Other assets	-	-	-	-	122,694	122,694	
	69,398	137,791	468,428	10,790	125,450	811,857	
<b>Liabilities and equity</b>							
Borrowings	-	-	-	-	-	-	
Deposits							
Fixed	67,115	233,176	153,482	-	-	453,773	3.04
Variable	10,724	-	-	-	-	10,724	0.13
Mortgage-backed securities	6,435	29,398	196,954	-	(3,941)	228,846	2.15
Other liabilities	-	-	-	-	44,824	44,824	
Equity	-	-	-	-	73,690	73,690	
	84,274	262,574	350,436	-	114,573	811,857	
Subtotal	(14,876)	(124,783)	117,992	10,790	10,877	-	
Prepayment estimate	17,050	51,151	(67,288)	(913)	-	-	
Excess (deficiency)	2,174	(73,632)	50,704	9,877	10,877	-	

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

(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>2021</b>							
<b>Assets</b>							
Cash and investments	7,300	5,027	11,141	11,968	21,451	56,887	0.84
Loans and mortgages	37,505	168,037	401,949	930	(1,997)	606,424	3.28
Other assets	-	-	-	-	109,307	109,307	
	44,805	173,064	413,090	12,898	128,761	772,618	
<b>Liabilities and equity</b>							
Borrowings	-	-	-	-	-	-	
Deposits							
Fixed	27,238	234,521	145,007	-	-	406,766	1.31
Variable	11,026	-	-	-	-	11,026	0.76
Mortgage-backed securities	3,371	27,640	203,441	-	(529)	233,923	1.49
Other liabilities	-	-	-	-	48,666	48,666	
Equity	-	-	-	-	72,237	72,237	
	41,635	262,161	348,448	-	120,374	772,618	
Subtotal	3,170	(89,097)	64,642	12,898	8,387	-	
Prepayment estimate	15,108	45,324	(60,292)	(140)	-	-	
Excess (deficiency)	18,278	(43,773)	4,350	12,758	8,387	-	

### 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, 2022, the balance of outstanding index linked deposits was \$23,901,596 (2021 – \$24,111,066).

### c) Fair value

The following table presents the fair value of the 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.

# League Savings and Mortgage Company

## Notes to the Financial Statements

**For the year ended December 31, 2022**

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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.

The Company's policy is to recognize transfers into and out of the fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer. During the year ended December 31, 2022, 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, 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, accrued interest on assets and liabilities, and borrowings, approximates their fair value as they are short-term in nature or are receivable on demand.

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.



# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

	Level 1 \$	Level 2 \$	Level 3 \$	Total fair value \$	Total carrying value \$
<b>2022</b>					
<b>Assets</b>					
Investments	258,750	26,023,406	100	26,282,256	26,282,256
Loans and mortgages	-	622,302,150	-	622,302,150	651,020,126
<b>Liabilities</b>					
Deposits	-	455,695,777	-	455,695,777	464,496,926
Mortgage-backed securities	-	213,307,337	-	213,307,337	228,845,888
<b>2021</b>					
<b>Assets</b>					
Investments	316,750	27,997,750	4,025	28,318,525	28,318,525
Loans and mortgages	-	605,242,400	-	605,242,400	606,423,864
<b>Liabilities</b>					
Deposits	-	419,802,105	-	419,802,105	417,791,902
Mortgage-backed securities	-	229,611,170	-	229,611,170	233,922,763

There was a disposal of a Level 3 investment on November 1, 2022 following the purchase of Concentra Bank by Equitable Bank.

## 12 Related party transactions

### a) Parent

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

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

	2022 \$	2021 \$
Expenses and fees related to the management contract	5,165,648	4,464,980
Interest expense	864,928	677,475
Interest income	92,970	4,168
Rental and other expenses	124,069	124,788
Dividends	1,141,867	842,729
Deposits at Central	6,630,211	26,125,426
Borrowings from Central	-	-
Deposits from Central	68,794,491	51,690,916
Amounts payable to Central	905,567	594,240
Balances relating to mortgages sold		
Interest, net of administration fees	22,839	43,946
Mortgages under administration	1,076,926	1,315,885
Monthly remittances payable	17,992	24,925

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

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### 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:

	2022 \$	2021 \$
Services and equipment purchases from League Data Limited	172,394	170,410
Term deposits with League Savings	2,000,001	4,049,116
Accounts payable to League Data Limited	626,326	13,105

### 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, the President and CEO, and other senior officers of the Company. The compensation paid to key management (other than the Board) 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 is limited to an annual honorarium.

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

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

	2022 \$	2021 \$
Short-term employee benefits	1,154,205	1,183,617
Contributions to group savings for retirement program	68,180	79,136
Variable compensation	289,397	287,131
Mortgage balances due from key management	78,887	83,790
Deposit balances due to key management	613,919	462,591

<sup>(a)</sup> 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:

	2022 \$	2021 \$
Remuneration	114,269	104,895
Payments for reimbursement of expenses	108,913	37,780

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

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### 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, 2022, the Company had approved mortgages in the amount of \$76,215,192 (2021 – \$54,073,113), which have not been advanced.

### 14 Income taxes

The components of tax expense are as follows:

	2022 \$	2021 \$
Current tax expense		
Federal and provincial	1,154,042	2,289,504
Capital and large corporate tax	1,804,702	1,761,466
	<u>2,958,744</u>	<u>4,050,970</u>
Deferred tax expense		
Origination and reversal of deductible temporary differences	1,155	181,953
	<u>2,959,899</u>	<u>4,232,923</u>

The provision for income taxes differs from the result that 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:

	2022 \$	2021 \$
Income before income taxes	5,788,091	10,294,259
Statutory income tax rate	29.00%	29.00%
Expected income tax	1,678,546	2,985,335
Effect on income tax of		
Non-taxable dividends	(3,843)	(3,797)
Permanent tax differences	4,391	1,574
Capital and large corporate tax	1,281,338	1,250,641
Future tax reduction	-	-
Other	(534)	(830)
Total income tax expense	<u>2,959,899</u>	<u>4,232,923</u>

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

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

	Balance	Recognized in		Balance	Recognized in		Balance
	2020	Net income	OCI	2021	Net income	OCI	2022
	\$	(loss)	\$	\$	(loss)	\$	\$
Deferred tax assets							
Property and equipment	21,294	(984)	-	20,310	(912)	-	19,398
Allowance for impaired loans	760,052	(180,969)	-	579,083	(88)	-	578,995
Losses carried forward	155	-	-	155	(155)	-	-
	<u>781,501</u>	<u>(181,953)</u>	<u>-</u>	<u>599,548</u>	<u>(1,155)</u>	<u>-</u>	<u>598,393</u>

## 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 the Company 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 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, the Company 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 is 8.5%, and the Total Capital ratio is 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.

In 2023, OSFI will require Canadian deposit-taking institutions to fully implement the 2023 Basel III reforms.

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, 2022

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

	2022 \$	2021 \$
Risk-weighted assets for		
Credit risk	346,881,500	328,715,000
Operational risk	25,462,500	25,238,000
Total	372,344,000	353,953,000
Capital elements		
Common shares	37,858,000	36,716,000
Contributed surplus	1,786,000	1,786,000
Accumulated OCI	(1,353,000)	23,000
Retained earnings	35,399,000	33,713,000
CET1	73,690,000	72,238,000
Total Tier 1 capital	73,690,000	72,238,000
Stage 1 and Stage 2 allowance	1,958,000	1,997,000
Total Tier 2 capital	1,958,000	1,997,000
Total regulatory capital	75,648,000	74,235,000
Ratios	%	%
CET1	19.8	20.4
Total Tier 1	19.8	20.4
Total capital	20.3	21.0
Leverage ratio	8.9	9.1
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, 2022 and 2021, there were no amounts outstanding on this facility.

On January 29, 2019, the Company entered into a line of credit agreement with Equitable 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. As at December 31, 2022 and 2021, there were no amounts outstanding on this facility. On November 1, 2022, Concentra Bank was acquired by Equitable Bank.

# League Savings and Mortgage Company

## Notes to the Financial Statements

For the year ended December 31, 2022

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### 17 Assets under administration

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

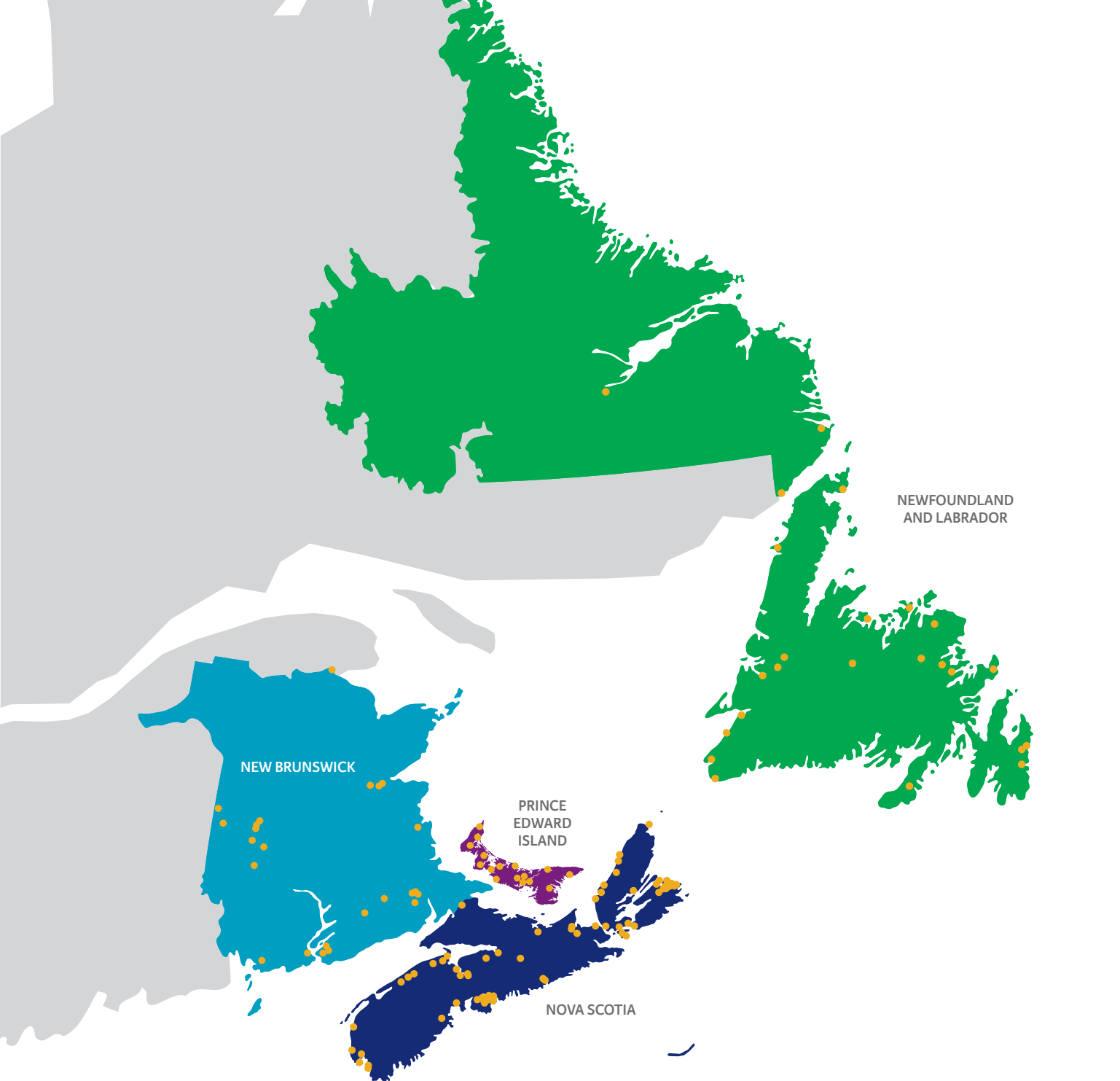
	2022 \$	2021 \$
Mortgages under administration	64,964,761	74,554,193

### 18 Non-interest income (expense)

Non-interest income (expense) includes the following:

	2022 \$	2021 \$
Securitization expenses	(615,991)	(607,002)
Other lending service fees	237,658	228,520
Lending service expenses	(954,147)	(933,010)
Investment service fees	61,245	28,028
Investment service expenses	(177,600)	(177,415)
Other	11,878	16,602
	(1,436,957)	(1,444,277)

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



#### NEW BRUNSWICK

Advance Savings  
Credit Union  
Bayview Credit Union  
Beaubear Credit Union  
Blackville Credit Union  
NBTA Credit Union  
OMISTA Credit Union  
Progressive Credit Union  
The Credit Union

#### PRINCE EDWARD ISLAND

Consolidated Credit Union  
Morell Credit Union  
Provincial Credit Union  
Souris Credit Union

#### NOVA SCOTIA

Acadian Credit Union  
Bay St. Lawrence  
Credit Union  
Cape Breton Centre Credit  
Union  
Caisse populaire de Clare  
Coastal Financial  
Credit Union  
Community Credit Union of  
Cumberland Colchester  
CUA  
Dominion Credit Union  
East Coast Credit Union  
Glace Bay Central  
Credit Union  
iNova Credit Union  
LaHave River Credit Union

#### NEWFOUNDLAND AND LABRADOR

Atlantic Edge Credit Union  
Community Credit Union  
EasternEdge Credit Union  
Hamilton Sound Credit Union  
Public Service Credit Union  
Reddy Kilowatt Credit Union  
Venture Credit Union



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