SETTING OUR DIRECTION

League Savings and Mortgage Company
Annual Report 2018

CONTENTS

Longevity in business is about being able to reinvent yourself or invent the future.

— SATYA NADELLA, CEO, MICROSOFT

SETTING OUR DIRECTION

Pivotal. A bold word to describe 2018. We continued to embrace and improve upon the culture of collaboration we have fostered and are so proud of in the Atlantic region. With this mindset, a new three-year strategy was developed with a renewed focus on how we can achieve success as a system. Together with our credit unions and closest system partners, we are tackling these challenges and celebrating our successes with greater alignment than perhaps ever before.

Moving ahead, we will encounter challenges and opportunities. The financial services industry moves quickly and evolves constantly. We must also evolve, resetting our GPS and moving in a direction that ensures the Atlantic credit union system remains relevant, viable and successful – all while remaining true to who we are.

We exist to create a real and meaningful difference in the lives of our members and the communities in which they live. That clarity of vision, combined with a well-developed strategy is the compass that guides each and every decision we make – whether it's providing the products and services credit unions need to help them remain competitive and grow, or making pivotal changes in our own organizations to ensure we are well-positioned to achieve our business goals and objectives now and in the future.

CHAIR'S MESSAGE

Throughout 2018, League Savings experienced tremendous change, challenge and success. We spent the past three years exploring opportunities to evolve our business model. We recognized that although the current model had served us, and credit unions well for more than 50 years, it was time to set a new direction to ensure future success.

In September we were pleased to announce that League Savings had entered into a new partnership with Concentra Bank (Concentra). We are both co-operative organizations and share the same values and commitment to credit union success. League Savings has enjoyed a successful relationship with Concentra since 2005. Entering into this expanded partnership seemed like a natural and logical progression that will benefit both League Savings and credit unions.

Evolving our business model also meant making changes to our organizational structure to better position us to pursue the new business opportunities provided by the partnership with Concentra. The board would like to recognize the staff of League Savings for their dedication to serving credit unions and their work to ensure a successful transition to the new partnership.

League Savings' new three-year strategy was launched at our annual planning session in June and was approved by the board at our December meeting.

Our new strategic direction positions us well to support credit union success and our goal of becoming a stronger player in the financial services industry.

The board is committed to continuous learning and regularly participates in professional development opportunities. In 2018, directors attended a series of training sessions including board and CEO succession planning, cyber security, and business continuity planning. In addition, the board is undergoing a review of existing competencies to ensure we have the appropriate mix of skills and expertise to achieve the bold new direction we have set for League Savings.

On behalf of the board, I want to thank the management team and staff for their leadership and commitment to success throughout 2018. It was a challenging year. But in true co-operative fashion, you worked together to achieve significant results.

League Savings is headed confidently into the future. With renewed vision and clarity of purpose, I look forward to the exciting opportunities before us to create significant value for the company and the credit union system.

Jim MacFarlane
Chair
League Savings and Mortgage Company
Board of Directors

CEO'S MESSAGE

Being challenged in life is inevitable, being defeated is optional.

— ROGER CRAWFORD

We hear so often that companies need to "transform" – the term is almost a cliché. However, in the context of LSM, I believe it accurately describes our new direction and future aspirations. However, in the context of our company, those terms accurately describe our new direction and future aspirations. League Savings has been a stable and valuable contributor to the Atlantic credit union system for more than 50 years. So, shaking things up to create a new vision is no small feat. With the continuous upheaval in the national mortgage market, characterized by reduced margins and tighter lending rules, it is no surprise that it has become difficult to sustain a business model that relies on that single product. While that model served us well since 1967, it is time to move on.

Our new vision is ambitious: *to be the national wholesale financial services provider for credit unions in Canada.* How do we do that? Through partnerships of course. Due to our size, forming key partnerships is a foundation for many of our strategies in Atlantic Canada. For the past several years we've worked to develop strong relationships with partners who share common goals. As we explored options to evolve our business model, we discovered our best option was right beside us. Concentra Bank (Concentra) has been a valued partner since 2005. We share a common vision for the national system and similar goals for change that will better serve credit unions. This made Concentra a natural choice to explore our wholesale ambitions with. However, while vision and ambition are a good place to start, finalizing a business deal requires much more than just lofty goals. Working together to structure our new partnership took close to two years so it was a tremendous feeling of accomplishment when we announced our partnership on September 12, 2018. Transforming our business however, does not come without significant change. Many of our friends and co-workers who were important to our success for much of our history were impacted. Change will always be necessary, even mandatory, but it's not always easy. Our bold vision came with bold decisions that will position League Savings to serve credit unions and their members better.

An annual report is an opportunity to reflect on the past year and recognize those who are vital to our success. I'd like to thank the board of directors for their vision and support in setting a new direction for League Savings.

Thank you to my team, who is committed to making decisions, even difficult ones, for the benefit of League Savings and the credit union system. Their skill, combined with a passion for helping credit unions, is key to our success. And finally, I'd like to thank our our credit union partners for their support of League Savings and sharing common goals for the Atlantic system. Together we can – and will – do great things for our members and the communities in which they live.

Michael Leonard
President and CEO
League Savings and Mortgage Company

OUR MANAGEMENT TEAM

Joe Malek
VP Strategic Change

Michael Leonard
President & CEO

Great things in business are never done by one person; they're done by a team of people.

— STEVE JOBS

Kim Walker
VP Treasury & Credit Services

Sharon Arnold
Senior VP Finance & Chief Risk Officer

Paul Paruch
VP Marketing & Business Solutions

CORPORATE GOVERNANCE

Sound governance and ethical behaviour begins with our board of directors, which is accountable to our shareholder and stakeholders, and assumes responsibility for the stewardship of League Savings and Mortgage Company (League Savings). The 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 eleven directors as follows:

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

The following individuals currently serve on the board of directors:

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

The board and each committee meet at least once each fiscal quarter, and the board holds an annual strategic planning session. The board meets at other times when matters requiring its approval or consideration are raised and it is not possible or prudent to wait for the next regularly scheduled meeting. The board met seven times in 2018.

Committees of the Board

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

Audit, Risk and Conduct Review Committees

The committees consist of at least four directors, none of whom is an employee or officer of League Savings or Central. The Audit Committee is responsible for ensuring that management has designed and implemented an effective system of financial management and related internal controls. It also reviews and reports on the audited financial statements and ensures compliance with certain regulatory and statutory requirements. It is also responsible for meeting periodically with internal and external auditors. The Risk Committee is responsible for ensuring that management has developed and maintained an effective Enterprise Risk Management Framework for evaluating the business strategies being used for the allocation of human, capital and other resources. The Conduct Review Committee is responsible for ensuring that League Savings has developed and adheres to ethical standards and sound business conduct in such areas as conflict of interest and related party procedures.

COMMITTEE MEMBERS

Tammy Christopher (Chair), William Marr, Paul Newman, and George Smith

Co-operative Social Responsibility Committee

The Joint Central and League Savings Co-operative Social Responsibility (CSR) Committee is comprised of at least one director from each of Central and League Savings and representatives from each of the Atlantic provinces. The CSR Committee develops and supports clear and precise policy statements for consideration by the board that help define our belief in social well-being and sustainability. The committee recommends priorities for charitable giving, and awards and recognition programs and provides related oversight to these priorities and programs. In addition, the committee ensures sustainability and environmental impacts are considered in the management of premises and operations.

(JOINT) COMMITTEE MEMBERS

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

Executive/Human Resources Committee

The four members of this committee include the board chair, the vice-chair, and two directors elected at-large by the board. This committee is responsible for addressing matters between scheduled board meetings that require immediate attention, and for approving credit applications that are above management lending limits. It also acts as a Human Resources Committee.

COMMITTEE MEMBERS

Jim MacFarlane (Chair), Ken Shea (Vice-Chair), Pat Duffield, and Raymond Surette

COMMITTEE MEMBERS

Jim MacFarlane (Chair), Pat Duffield, Raymond Surette, and William Timmons

Governance Committee

The Governance Committee consists of a minimum of four directors. It is responsible for reviewing and recommending changes to the governance structure of League Savings and for ensuring that an effective governance system is in place, including a schedule for regular policy review and compliance. In addition, this committee ensures board decisions and positions are appropriately translated into documented policies. Policies developed by the committee are forwarded to the board for its consideration and approval. The committee oversees the procedures for nominating directors for the League Savings Board of Directors. The committee is responsible for overseeing the director evaluation process, board competencies, and the ongoing training and development of board members.

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
- reviewing the financial performance and condition of the organization

Attendance at Board and Committee Meetings

The board of directors recognizes the importance of each individual director's participation at board and committee meetings. Every director is expected to attend all board and committee meetings, unless adequate cause is giving for their absence. The table on the following page sets out the attendance of each board member at board and committee meetings throughout 2018.

Jim MacFarlane, Chair

Ken Shea, Vice-Chair

Tammy Christopher

Pat Duffield

William Marr

Sarah Millar

Paul Newman

Gary O'Brien

George Smith

Raymond Surette

William Timmons

Board Evaluations

As part of its commitment to ongoing development and improvement, the board conducts an annual self-evaluation. This 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 and board and management relations; and learning and development. The results of the evaluation are used to guide the training and development agenda for the board in the upcoming year.

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

*Table Officer

Evolving Governance Practices

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

Management's Responsibility for Financial Statements

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

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

The federal regulator of financial institutions conducts examinations and makes such enquiries into the affairs of League Savings and Mortgage Company (League Savings) as they deem necessary to ensure the safety of depositors and to ensure that the Company is in sound financial condition. Their findings are reported directly to Management. PricewaterhouseCoopers LLP, the independent auditors, have examined the financial statements of League Savings in accordance with Canadian generally accepted auditing standards and have expressed their opinion in the following report to shareholders.

Michael Leonard
President and CEO

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

Independent auditor's report

To the Shareholders of League Savings and Mortgage Company

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, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's financial statements comprise:

- the balance sheet as at December 31, 2018;
- the statement of income for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in shareholders' equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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.

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.

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, Licensed Public Accountants

Halifax, Nova Scotia
March 15, 2019

Balance Sheet

December 31 (Cdn Dollars)	Note	2018	2017
Assets			
Cash and cash equivalents		**$ 1,175,829**	$ 704,063
Investments	6	**27,668,023**	27,805,947
Loans and mortgages	7	**523,705,290**	509,380,335
Accrued interest		**1,845,922**	1,653,859
Deferred tax assets	14	**531,216**	616,508
Securitization assets	8	**32,476,786**	26,199,385
Other assets		**2,706,243**	4,152,383
		$ 590,109,309	$ 570,512,480
Liabilities			
Borrowings	16	**$ 4,656,832**	$ 2,380,880
Deposits	9	**319,907,954**	321,479,988
Accrued interest		**2,480,855**	2,308,780
Accounts payable and accrued liabilities		**13,878,428**	9,514,887
Capital tax payable		**34,725**	-
Income tax payable		**-**	373,483
Mortgage backed securities	8	**202,576,268**	189,487,253
		543,535,062	525,545,271
Shareholders' equity			
Capital stock	10	**22,101,613**	22,101,613
Contributed surplus		**1,785,887**	1,785,887
Retained earnings		**22,759,569**	21,121,540
Accumulated other comprehensive income (loss)		**(72,822)**	(41,831)
		46,574,247	44,967,209
		$ 590,109,309	$ 570,512,480
Commitments and contractual obligations	13		

Approved: On Behalf of the Board:

Michael C Leonard

Michael Leonard
President and CEO

Jim MacFarlane
Chair

T Christopher

Tammy Christopher
Director

See accompanying notes to the financial statements

Statement of Income

Year Ended December 31 (Cdn Dollars)	Note	**2018**	2017
Financial income			
Interest on investments		**$ 586,914**	$ 521,307
Interest on loans and mortgages		**19,046,211**	17,415,493
		19,633,125	17,936,800
Financial expense		**9,626,151**	8,581,613
Gross financial margin		**10,006,974**	9,355,187
Provision for credit losses (recoveries)		**118,889**	221,592
Net financial margin		**9,888,085**	9,133,595
Other financial income		**181,947**	137,664
Net financial income		**10,070,032**	9,271,259
Securitization gains	8	**930,909**	1,692,443
Non-interest income (expense)	18	**51,356**	290,470
		11,052,297	11,254,172
Operating expenses			
Management fees	12	**5,117,641**	5,392,633
Office expense		**569,058**	563,127
Democracy		**221,563**	213,780
Professional fees		**382,025**	228,897
Other expenses		**97,691**	84,819
		6,387,978	6,483,256
Operating income		**4,664,319**	4,770,916
Initiatives and restructuring expenses	19	**720,876**	-
Income before taxes		**3,943,443**	4,770,916
Capital tax	14	**742,999**	679,198
Income tax	14	**986,112**	1,271,082
Net income		**$ 2,214,332**	$ 2,820,636

See accompanying notes to the financial statements

Statement of Comprehensive Income

Year Ended December 31 (Cdn Dollars)	Note	2018	2017
Net income		**$ 2,214,332**	$ 2,820,636
Other comprehensive income (OCI)			
Items that will be reclassified subsequently to income:			
Net change in unrealized gains (losses) on investments at fair value through OCI:			
Net unrealized gains (losses) on mark to market investments		**(44,915)**	(302,005)
Reclassification of net realized losses (gains) to net income		**-**	(11,698)
Income tax expense:	14		
On unrealized losses (gains) on mark to market investments		**13,924**	93,622
On reclassification of net realized gains (losses) to net income		**-**	3,626
Other comprehensive income (loss)		**(30,991)**	(216,455)
Comprehensive income		**$ 2,183,341**	$ 2,604,181

See accompanying notes to the financial statements

Statement of Changes in Shareholders' Equity

Year Ended December 31, 2018 (Cdn Dollars)		**Common Shares (Note 10)**		**Contributed Surplus**		**Retained Earnings**		**Accumulated Other Comprehensive Income**		**Total Equity**
Balance at beginning of year	**$**	**22,101,613**	**$**	**1,785,887**	**$**	**21,121,540**	**$**	**(41,831)**	**$**	**44,967,209**
Impact of adopting IFRS 9 (Note 3)		**-**		**-**		**31,492**		**-**		**31,492**
Net income		**-**		**-**		**2,214,332**		**-**		**2,214,332**
Other comprehensive income (loss) net of tax		**-**		**-**		**-**		**(30,991)**		**(30,991)**
Comprehensive income		**-**		**-**		**2,214,332**		**(30,991)**		**2,183,341**
Shares issued		**-**		**-**		**-**		**-**		**-**
Shares redeemed				**-**		**-**		**-**		**-**
Dividends		**-**		**-**		**(607,794)**		**-**		**(607,794)**
Balance at end of year	**$**	**22,101,613**	**$**	**1,785,887**	**$**	**22,759,569**	**$**	**(72,822)**	**$**	**46,574,247**

Year Ended December 31, 2017 (Cdn Dollars)		**Common Shares (Note 10)**		**Contributed Surplus**		**Retained Earnings**		**Accumulated Other Comprehensive Income**		**Total Equity**
Balance at beginning of year	$	22,101,613	$	1,785,887	$	18,879,850	$	174,624	$	42,941,974
Net income		-		-		2,820,636		-		2,820,636
Other comprehensive income (loss) net of tax		-		-		-		(216,455)		(216,455)
Comprehensive income		-		-		2,820,636		(216,455)		2,604,181
Shares issued		-		-		-		-		-
Shares redeemed		-		-		-		-		-
Dividends		-		-		(578,946)		-		(578,946)
Balance at end of year	$	22,101,613	$	1,785,887	$	21,121,540	$	(41,831)	$	44,967,209

See accompanying notes to the financial statements

Statement of Cash Flows

Year Ended December 31 (Cdn Dollars)	2018	2017
Increase (decrease) in cash and cash equivalents		
Operating activities		
Net income	**$ 2,214,332**	$ 2,820,636
Adjustments:		
Loans and mortgages, net	**(14,293,463)**	(36,421,238)
Deposits, net	**(1,572,034)**	(11,376,127)
Mortgage backed securities, net	**13,089,015**	54,935,118
Interest receivable/payable, net	**(19,988)**	(528,414)
Income tax receivable/payable, net	**(373,483)**	363,054
Deferred tax assets, net	**85,292**	(54,148)
Other items, net	**(432,996)**	(11,772,610)
	(1,303,325)	(2,033,729)
Financing activities		
Dividends paid	**(607,794)**	(578,946)
	(607,794)	(578,946)
Investing activities		
Investments, net	**106,933**	(4,958,999)
	106,933	(4,958,999)
Net decrease in cash and cash equivalents	**(1,804,186)**	(7,571,674)
Cash and cash equivalents (net)		
Beginning of year	**(1,676,817)**	5,894,857
End of year	**$ (3,481,003)**	$ (1,676,817)
Includes:		
Cash on hand and balances with financial institutions	**$ 1,175,829**	$ 704,063
Borrowings	**(4,656,832)**	(2,380,880)
	$ (3,481,003)	$ (1,676,817)
Supplemental disclosure of cash flow information:		
Interest received	**$ 19,411,541**	$ 17,588,532
Dividends received	**29,521**	165
Interest paid	**9,454,076**	8,096,406
Income taxes paid, net of refunds	**2,097,928**	864,928

See accompanying notes to the financial statements

Notes to Financial Statements – December 31, 2018

1. Reporting entity

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

Atlantic Central (Central) owns 100% of the common shares. Prior to the completion of a capital restructure plan in 2016, the Preferred A shares were primarily owned by credit unions in the Atlantic provinces. Atlantic Central is the continuance of Credit Union Central of Nova Scotia and is owned by credit unions in the Atlantic provinces.

The financial statements were authorized for issue by the Board of Directors on March 15, 2019.

2. Basis of presentation

The financial statements are presented in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of the financial statements are set out in Note 4. The financial statements have been prepared on the historical cost basis except for certain financial instruments as indicated in Note 4.
The Company presents its balance sheet on a non-classified basis. The following balances are generally classified as current: cash and cash equivalents, fixed income investments and loans and mortgages maturing within one year, other assets, borrowings, demand deposits, term deposits and mortgage backed securities maturing within one year, and accounts payable and accrued liabilities.

3. Changes in accounting standards

Changes in accounting policies during the year

IFRS 9 - Financial Instruments

Effective January 1, 2018 the Company adopted *IFRS 9 - Financial Instruments ("IFRS 9")*, which replaces IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 addresses classification and measurement, impairment, and hedge accounting.

Adjustments to the carrying amounts of financial assets and liabilities at January 1, 2018, the date of transition, were recognized in opening shareholder's equity resulting in an increase in retained earnings in the amount of $31,492. As permitted by IFRS 9, prior periods have not been restated. Consequently, for note disclosures, the applicable amendments to *IFRS 7- Financial Instruments: Disclosures (IFRS 7)* disclosures have also only been applied to the current year. The comparative period note disclosures repeat those disclosures made in the prior year.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Company. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as previous IAS 39 accounting policies applied in the comparative period) are described in Note 4.

Classification and Measurement:

IFRS 9 provides a single model for financial asset classification and measurement that is based on both the business model for managing financial assets and the contractual cash flow characteristics of the financial assets. These factors determine whether the financial assets are measured at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL).

The following table presents the classifications and carrying amounts of financial assets and financial liabilities in accordance with IAS 39 as at December 31, 2017 and the new classifications in accordance with IFRS 9 as at January 1, 2018:

	IAS 39		**IFRS 9**	
Financial assets and liabilities	**Measurement category**	**Carrying amount**	**Measurement category**	**Carrying amount**
Cash and cash equivalents	Amortized cost (Loans and receivables)	704,063	Amortized cost	704,063
Investments – debt instruments	AFS (FVOCI)	27,567,022	FVOCI	27,567,022
Investments – equity instruments	AFS (FVOCI)	238,925	FVOCI elected	238,925
Loans and mortgages	Amortized cost (Loans and receivables)	509,380,335	Amortized cost	509,411,827
Accrued interest, securitization assets and other assets	Amortized cost (Loans and receivables)	32,005,627	Amortized cost	32,005,627
Interest rate swaps	FVTPL	-	FVTPL	-
Borrowings, deposits, mortgage backed securities (MBS), accrued interest, accounts payable and accrued liabilities	Amortized cost	525,545,271	Amortized cost	525,545,271

The Company performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. There were no reclassifications required upon adoption of IFRS 9 at January 1, 2018 based on the analysis performed.

Reconciliation of loan loss allowance balance from IAS 39 to IFRS 9:

The impact to opening equity at January 1, 2018 due to the remeasurement from the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at January 1, 2018 is $31,492. The loan loss allowance under IAS 39 is $1,957,111 while the allowance under IFRS 9 is $1,925,679.

Further information on the measurement of the loss allowance under IFRS 9 can be found in Note 4.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15, effective January 1, 2018, establishes principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles based five-step model for revenue recognition to be applied to all contracts with customers.

The Company has adopted the standard and its amendments as of January 1, 2018 using the retrospective method. Under the retrospective method, the comparative information is restated. For the Company the transition to IFRS 15 does not have an impact on when revenue from contracts with customers is recognized.

Future Changes in accounting policies

Accounting changes that have been issued but are not yet effective are listed below.

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

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

For lessees, the new standard will result in on-balance sheet recognition for many leases that are considered operating leases under IAS 17, which will result in the gross-up of the balance sheet through the recognition of a right-of-use asset and a liability for the lease component of the future payments. Depreciation expense on the right-of-use asset and interest expense on the lease liability will replace the operating lease expense. The accounting for leases by lessors remains mostly unchanged from IAS 17. The Company currently has no leases outstanding.

Other standards

The following amended standards, that are not yet effective for the year ended December 31, 2018, are not expected to have a significant impact on the Company.

- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- IFRIC 23 Uncertainty over Income Tax Treatments.

4. Summary of significant accounting policies

Cash and cash equivalents

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

Financial instruments – Policies in effect from January 1, 2018 (IFRS 9)

From January 1, 2018, the Company has applied IFRS 9 and classifies its financial assets in the following measurement categories: FVTPL; FVOCI; or amortized cost. Management determines the classification of its financial instruments at initial recognition.

The accounting policies from January 1, 2018 related to these financial assets and liabilities are as follows:

Measurement methods – Amortized cost and effective interest rate

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

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

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

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or 'stage 3'), for which interest income is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss (ECL) provision).

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 instruments fair value can be determined using market observable inputs, or realized through settlement.

Classification and subsequent measurement

From January 1, 2018 the Company has applied IFRS 9 and classifies its financial assets using the following measurement categories:

- FVTPL
- FVOCI
- Amortized cost

Assets carried at amortized cost will continue to be measured as outlined above.

Investments

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

Debt instruments

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

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

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

Business model

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

- The business purpose of the portfolio – such as a focus on earning contractual interest income or a focus on matching the duration of the liabilities that are funding the assets;

- The risks that are being managed and the type of activities that are carried out on a day-to-day basis to manage the risks;
- The basis on which performance of the portfolio is being evaluated; and
- The frequency and significance of sales activity in prior periods, and expectations about future sales activity.

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

Solely payments of principal and interest (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 are 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.

Impairment

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

Debt instruments carried at FVOCI are considered to have low credit risk, and the loss allowance recognized during the period was therefore limited to 12 months ECL. Management consider '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.

Modification of loans

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

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

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

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

Derecognition other than on a modification

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

The Company enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Company:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Financial liabilities

The classification and measurement of financial liabilities remain unchanged under IFRS 9, except for financial liabilities designated as measured at fair value through profit or loss. In both the current and prior period, other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. There were no changes that impact the Company.

Derecognition

Financial liabilities are derecognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Financial instruments – Policies in effect prior to January 1, 2018 (IAS 9)

For the period January 1, 2017 to December 31, 2017 and the year then ended, the Company applied IAS 39 and classified its financial assets and liabilities as follows:

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

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

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

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

The Company has classified its financial instruments as follows:

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

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

The accounting policies from January 1, 2017 to December 31, 2017 and the year then ended related to these financial assets and liabilities was as follows:

Investments

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

Investment income on debt instruments is recognized on an accrual basis in investment income, while dividend income on equity instruments is also recognized in investment income. Realized gains and losses on the disposal of securities are included in investment income. All securities are held for investment purposes.

Loans and mortgages

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

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

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

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

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

The Company periodically sells or purchases mortgages, primarily to or from credit unions. In these transactions, the seller continues to administer the loans sold, but the contractual right to receive payments on the loans is offset by an obligation to transfer these payments to the purchaser. The loans sold by the Company in these programs are derecognized, and the loans purchased are recognized, on the date of the transfer. Any gains or losses on these transactions are recorded in other financial income (lending services fees).

For most sales of mortgages to credit unions the advance of the mortgage to the borrower, and the sale of the mortgage to the credit union, occur at the same time. As the sale occurs at the current market rate there is no gain or loss on these sales.

Impairment

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

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

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

The following accounting policies were applicable for the years ended December 31, 2018 and December 31, 2017:

Mortgage backed securities

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

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

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

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

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

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

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

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

Derecognition

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

Securitization retained interests and servicing liabilities

In certain cases, the Company has 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 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.

Revenue and expense recognition

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

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

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

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

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

Leases

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

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

Income taxes

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

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

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

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

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

Deposits

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

Initiatives and restructuring

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

Critical accounting estimates and assumptions

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

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

Fair value of financial instruments

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

For certain types of equity instruments, where no active market exists or where quoted prices are not otherwise available, fair value is considered to approximate par value based on the terms of those instruments. The Company continues to monitor these instruments for any indication that a new measure of fair value is available.

Expected credit loss allowance

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

A number of significant judgements 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 judgements, 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 of Directors (Board), which approves the Company's Risk Appetite Statement and risk management policies, delegates limits and regularly reviews Management's risk assessments and compliance with approved policies. Qualified professionals throughout the Company manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes.

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

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

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

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

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

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

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

Credit risk

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

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

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

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

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

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

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

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

Expected credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- 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 judgements and assumptions adopted by the Company in addressing the requirements of the standard are discussed below:

Significant increase in credit risk

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

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

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

In the year ended December 31, 2018 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:

- The 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.
- 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.

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.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions also vary by product type.

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

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

Collateral held and other credit risk enhancements

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

At December 31, 2018, the net carrying amount of credit impaired loans and advances to customers amounted to $285,512 and the value of identifiable collateral held against these loans amounted to $166,500.

Assets obtained by the Company, by taking possession of collateral held as security against loans and advances, are included in other assets. The balance held at December 31, 2018 was $866,738 (2017 - $845,486).

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

Liquidity risk

Liquidity refers to the capacity to generate or obtain sufficient cash or its equivalent in a timely manner at a reasonable price to meet the Company's commitments as they fall due and to fund new business opportunities.

Liquidity risk is the potential for losses to be incurred from holding insufficient liquidity to survive a contingent stress event.

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

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

The Company's liquidity management practices include:

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

The Company's cash flows are most significantly impacted by its credit union corporate deposits. As such, its scenario testing focuses on increases in the redemptions of these deposits. The matching of the maturities of assets and liabilities are detailed in Note 11.

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

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 amount of equity investments permitted in the securities portfolio. Current policies prohibit the Company from transacting in foreign currencies, and the Company has no exposure to commodity prices.

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

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

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

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

	2018	2017
100 basis point increase	$ (497,800)	$ (289,600)
100 basis point decrease	490,000	637,100

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

For the year ended December 31, 2018 debt instruments are carried at FVOCI. For equity investments the Company has also elected to measure the investments at FVOCI.

	2018 Cost	**2018 Market Value**	2017 Cost	2017 Market Value
Government debt	**$ 27,630,260**	**$ 27,445,448**	$ 27,723,269	$ 27,567,022
Co-operative equities	**4,025**	**4,025**	4,025	4,025
Corporate equities	**50,000**	**218,550**	50,000	234,900
	$ 27,684,285	**$ 27,668,023**	$ 27,777,294	$ 27,805,947

7. Loans and mortgages

At December 31, 2018 loans are presented net of ECL's totalling $1,739,137. Loans are initially measured at fair value and are subsequently measured at amortized cost.

	Total Loans	**Allowance for credit losses**	**Net Loans**
2018			
Consumer loans	**$ 3,426,898**	**$ 130,539**	**$ 3,296,359**
Residential insured	**396,824,808**	**82,906**	**396,741,902**
Residential uninsured	**101,263,322**	**400,969**	**100,862,353**
Multi-residential insured	**9,692,615**	**2,513**	**9,690,102**
Multi-residential uninsured	**55,098,438**	**321,336**	**54,777,102**
Non-residential	**65,811,047**	**800,874**	**65,010,173**
	$ 632,117,128	**$ 1,739,137**	**$ 630,377,991**
Less: under administration			
Residential insured	**93,762,356**	**-**	**93,762,356**
Residential uninsured	**12,877,171**	**-**	**12,877,171**
Multi-residential uninsured	**6,589**	**-**	**6,589**
Non-residential	**26,585**	**-**	**26,585**
	106,672,701	**-**	**106,672,701**
	$ 525,444,427	**$ 1,739,137**	**$ 523,705,290**

	Total Loans		Allowance for credit losses		Net Loans
2017					
Consumer loans	$ 4,748,984	$	111,130	$	4,637,854
Residential insured	390,959,683		248,661		390,711,022
Residential uninsured	93,529,375		522,964		93,006,411
Multi-residential insured	10,862,685		-		10,862,685
Multi-residential uninsured	53,599,829		-		53,599,829
Non-residential	69,100,381		1,074,416		68,025,965
	$ 622,800,937	$	1,957,171	$	620,843,766
Less: under administration					
Residential insured	99,609,538		-		99,609,538
Residential uninsured	11,134,071		-		11,134,071
Multi-residential uninsured	39,416		-		39,416
Non-residential	680,406		-		680,406
	111,463,431		-		111,463,431
	$ 511,337,506	$	1,957,171	$	509,380,335

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

	Stage 1	Stage 2	Stage 3	Total
2018				
Consumer loans	**$ 3,410,113**	**$ 15,686**	**$ 1,099**	**$ 3,426,898**
Residential insured	**302,534,088**	**507,125**	**21,239**	**303,062,452**
Residential uninsured	**88,386,151**	**-**	**-**	**88,386,151**
Multi-residential insured	**9,692,615**	**-**	**-**	**9,692,615**
Multi-residential uninsured	**55,091,849**	**-**	**-**	**55,091,849**
Non-residential	**64,375,970**	**1,144,219**	**264,273**	**65,784,462**
	$ 523,490,786	**$ 1,667,030**	**$ 286,611**	**$ 525,444,427**
2017				
Consumer loans	$ 4,734,393	$ 14,270	$ 321	$ 4,748,984
Residential insured	290,570,206	323,823	456,116	291,350,145
Residential uninsured	82,395,304	-	-	82,395,304
Multi-residential insured	10,862,685	-	-	10,862,685
Multi-residential uninsured	53,560,413	-	-	53,560,413
Non-residential	66,353,837	1,475,283	590,855	68,419,975
	$ 508,476,838	$ 1,813,376	$ 1,047,292	$ 511,337,506

Loss allowance

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

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

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

	Performing		Impaired	
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Consumer loans				
Balance as at December 31,2017	$ -	$ -	$ -	$ 111,130
Transition to IFRS 9	-	-	-	87,441
Balance as at January 1, 2018	189,523	8,696	352	198,571
Transfer to (from):				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Gross write-offs	(55,686)	(3,213)	(294)	(59,193)
Recoveries	2,217	128	12	2,357
Remeasurement [(a)]	(15,037)	2,845	996	(11,196)
Balance at December 31, 2018	**$ 121,017**	**$ 8,456**	**$ 1,067**	**$ 130,539**
Residential insured				
Balance as at December 31,2017	$ -	$ -	$ -	$ 248,661
Transition to IFRS 9	-	-	-	(164,212)
Balance as at January 1, 2018	63,686	506	20,257	84,449
Transfer to (from):				
Stage 1	(473)	473	-	-
Stage 2	360	(360)	-	-
Stage 3	-	-	-	-
Gross write-offs	-	-	-	-
Recoveries	-	-	-	-
Remeasurement [(a)]	(2,635)	110	981	(1,543)
Balance at December 31, 2018	**$ 60,938**	**$ 729**	**$ 21,239**	**$ 82,906**

	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
Residential uninsured				
Balance as at December 31,2017	$ -	$ -	$ -	$ 522,964
Transition to IFRS 9	-	-	-	(109,734)
Balance as at January 1, 2018	413,230	-	-	413,230
Transfer to (from):				-
Stage 1	(50)	50	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Gross write-offs	-	-	-	-
Recoveries	-	-	-	-
Remeasurement [a]	(12,210)	(50)	-	(12,260)
Balance at December 31, 2018	**$ 400,969**	**$ -**	**$ -**	**$ 400,969**

	Stage 1	Stage 2	Stage 3	Total
Multi-residential insured				
Balance as at December 31,2017 [b]	$ -	$ -	$ -	$ -
Transition to IFRS 9	-	-	-	3,061
Balance as at January 1, 2018	3,061	-	-	3,061
Transfer to (from):				-
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Gross write-offs	-	-	-	-
Recoveries	-	-	-	-
Remeasurement [a]	(548)	-	-	(548)
Balance at December 31, 2018	**$ 2,513**	**$ -**	**$ -**	**$ 2,513**

	Stage 1	Stage 2	Stage 3	Total
Multi-residential uninsured				
Balance as at December 31,2017 [b]	$ -	$ -	$ -	$ -
Transition to IFRS 9	-	-	-	339,594
Balance as at January 1, 2018	339,594	-	-	339,594
Transfer to (from):				-
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Gross write-offs	-	-	-	-
Recoveries	-	-	-	-
Remeasurement [a]	(18,258)	-	-	(18,258)
Balance at December 31, 2018	**$ 321,336**	**$ -**	**$ -**	**$ 321,336**

	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
Non-residential				
Balance as at December 31,2017 [b]	$ -	$ -	$ -	$ 1,074,416
Transition to IFRS 9	-	-	-	(187,642)
Balance as at January 1, 2018	713,067	131,853	41,854	886,774
Transfer to (from):				-
Stage 1	-	-	-	-
Stage 2	347	(347)	-	-
Stage 3	-	-	-	-
Gross write-offs	-	-	-	-
Recoveries	-	-	-	-
Remeasurement [a]	(100,778)	(41,041)	55,919	(85,900)
Balance at December 31, 2018	**$ 612,637**	**$ 90,465**	**$ 97,773**	**$ 800,874**
Total Allowance at December 31, 2018	**$ 1,519,409**	**$ 99,650**	**$ 120,078**	**$ 1,739,137**

a) Remeasurement includes changes in the allowance related to purchases and originations, derecognitions 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.

b) At December 31,2017 the allowance for Multi-residential mortgages was included in Non-residential.

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 at December 31, 2018, and the related collateral held, are shown below:

	Balance	Collateral Value	Allowance
Consumer loans	$ 1,099	$	$ 1,067
Residential insured	21,239	-	21,239
Non-residential	264,273	166,500	97,773
	$ 286,611	$ 166,500	$ 120,078

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

	2018	2017
31 to 60 days	**$ 507,125**	$ 1,796,358
61 to 90 days	**1,144,219**	2,748
91 to 180 days	**-**	160,087
over 180 days	**188,166**	277,482
	$ 1,839,510	$ 2,236,675

8. Mortgage backed securities

a) Transferred assets that do not qualify for derecognition

The Company securitizes insured residential mortgage loans by participating in the NHA MBS and CMB program. Through the program, 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 Canada Mortgage and Housing Corporation ("CMHC"). As an issuer of mortgage backed securities ("MBS"), the Company is responsible for advancing all scheduled principal and interest payments to CMHC, irrespective of whether the amounts have been collected on the underlying transferred mortgages.

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

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

		2018				2017		
		Market MBS	**CMB**	Total		Market MBS	CMB	Total
Carrying value								
NHA MBS assets	**$**	**133,514,129**	**69,574,256**	**203,088,386**	$	116,361,097	73,512,156	189,873,254
Associated liabilities		**133,256,875**	**69,319,393**	**202,576,268**		116,312,062	73,175,191	189,487,253

Assets pledged as collateral

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

b) Transferred assets that have been derecognized

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

		2018		2017
Mortgages sold	**$**	**235,316,034**	$	424,327,029
Gains on sales		**930,909**		1,692,443
Cummulative balance of mortgages				
sold and derecognized	**$**	**999,524,046**	$	764,208,012
Related balances at December 31:				
Servicing assets	**$**	**32,476,786**	$	26,199,385
Servicing liabilities		**7,533,393**		5,853,529

9. Deposits

		2018		2017
Registered	$	7,487,665	$	8,258,979
Other demand		8,978,934		8,992,824
Total demand deposits		16,466,599		17,251,803
Registered		137,535,092		138,019,887
Other term		165,906,263		166,208,299
Total term deposits		303,441,355		304,228,186
	$	319,907,954	$	321,479,989

10. Capital stock

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

	Outstanding					
	2018			2017		
	Shares		Amount	Shares		Amount
Common shares:						
No par value, voting	22,101,613	$	22,101,613	22,101,613	$	22,101,613
Class A preferred shares:						
No par value, non-cumulative, redeemable,						
non-retractable, voting	-		-	-		-
		$	22,101,613		$	22,101,613

The consideration for any shares issued or redeemed is cash.

11. Financial instruments

a) Interest rate risk

The Company earns and pays interest on certain assets and liabilities. To the extent that the assets, liabilities and financial instruments mature or reprice at different points in time, the Company is exposed to interest rate risk. The table below summarizes carrying amounts of balance sheet items by the earlier of the contractual repricing or maturity dates. Non-Interest Sensitive items are those that have no maturity date and do not pay or receive interest.

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

(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
2018							%
Assets							
Cash and investments	$ -	$ 11,519	$ 14,017	$ 2,094	$ 1,214	$ 28,844	1.89
Loans	25,640	80,705	419,099	-	(1,739)	523,705	2.29
Other assets	-	-	-	-	37,560	37,560	
	$ 25,640	$ 92,224	$ 433,116	$ 2,094	$ 37,035	$ 590,109	
Liabilities and equity							
Borrowings	$ 4,657	$ -	$ -	$ -	$ -	$ 4,657	3.45
Deposits							
Fixed	29,799	132,309	141,333	-	-	303,441	1.90
Variable	16,467	-	-	-	-	16,467	0.49
Mortgage backed securities	2,694	20,315	180,079	-	(512)	202,576	3.25
Other liabilities	-	-	-	-	16,394	16,394	
						-	
Equity	-	-	-	-	46,574	46,574	
	$ 53,617	$ 152,624	$ 321,412	$ -	$ 62,456	$ 590,109	
Subtotal	$ (27,977)	$ (60,400)	$ 111,704	$ 2,094	$ (25,421)	$ -	
Prepayment estimate	15,716	47,149	(62,865)	-	-	-	
Excess (deficiency)	$ (12,261)	$ (13,251)	$ 48,839	$ 2,094	$ (25,421)	$ -	

	Within 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Non-Interest Sensitive	Total	Average Rate
2017							%
Assets							
Cash and investments	$ -	$ -	$ 22,962	$ 4,761	$ 787	$ 28,510	1.91
Loans	31,835	106,752	373,906	-	(3,113)	509,380	3.54
Other assets	-	-	-	-	32,622	32,622	
	$ 31,835	$ 106,752	$ 396,868	$ 4,761	$ 30,296	$ 570,512	
Liabilities and equity							
Borrowings	$ 2,381	$ -	$ -	$ -	$ -	$ 2,381	2.70
Deposits							
Fixed	32,387	102,781	169,060	-	-	304,228	1.53
Variable	17,252	-	-	-	-	17,252	1.00
Mortgage backed securities	1,014	24,404	164,069	-	-	189,487	1.60
Other liabilities	-	-	-	-	12,197	12,197	
Equity	-	-	-	-	44,967	44,967	
	$ 53,034	$ 127,185	$ 333,129	$ -	$ 57,164	$ 570,512	
Subtotal	$ (21,199)	$ (20,433)	$ 63,739	$ 4,761	$ (26,868)	$ -	
Prepayment estimate	14,022	42,064	(56,086)	-	-	-	
Excess (deficiency)	$ (7,177)	$ 21,631	$ 7,653	$ 4,761	$ (26,868)	$ -	

b) Interest rate swap agreements

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

The primary risks associated with these contracts are the exposure to movements in interest rates and the ability of the counterparties to meet the terms of the contract. Interest rate swap agreements are used to manage interest rate risk by modifying the repricing or maturities of assets and liabilities. Interest rate swap agreements are considered financial derivatives and are recorded at fair value. Income and expenses on interest rate swap agreements are recognized over the life of the contract as an adjustment to interest expense. Accrued expenses are recorded in accrued interest payable. There were no interest rate swap agreements outstanding at December 31, 2018.

c) Index linked deposits

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

To offset the risk of this variable interest rate, the Company enters into agreements, whereby the Company pays a fixed rate of interest for the term of each index linked deposit based on the face value of the deposits sold. At the end of the term, the Company receives an amount equal to the amount that will be paid to the depositors. At December 31, 2018, the balance of outstanding index linked deposits was $2,253,792 (2017 - $2,370,472).

d) Fair value

The following table presents the fair value of financial instruments of the Company based on the valuation methods and assumptions set out below. Fair value represents the amount at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions, and is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

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

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

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

- Level 1 – Quoted prices 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.
- 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 of the date of the event or change in circumstances that caused the transfer. During the year ended December 31, 2018, the Company had no transfers between fair value hierarchy levels.

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 approximate their fair value as they are short term in nature or are receivable on demand.

For investments, corporate equities are valued using quoted market prices (Level 1) 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 union's and other credit union system partners and is usually a condition of membership or necessary for access to the services provided by a system partner. As a result, transactions in these investments are restricted, and typically occur at par value, which is the best estimate of fair value.

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

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

The 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.

2018	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets				
Cash and cash equivalents	$ 1,175,829	$ -	$ -	$ 1,175,829
Investments	218,550	27,445,448	4,025	27,668,023
Loans and mortgages	-	523,629,772	-	523,629,772
Accrued interest	-	1,845,922	-	1,845,922
Liabilities				
Borrowings	$ 4,656,832	$ -	$ -	$ 4,656,832
Deposits	-	316,797,772	-	316,797,772
Accrued interest	-	2,480,855	-	2,480,855
Mortgage backed securities	-	207,110,125	-	207,110,125

2017		Level 1		Level 2		Level 3		Total Fair Value
Assets								
Cash and cash equivalents	$	704,063	$	-	$	-	$	704,063
Investments		234,900		27,567,022		4,025		27,805,947
Loans and mortgages		-		512,650,512		-		512,650,512
Accrued interest		-		2,308,780		-		2,308,780
Liabilities								
Borrowings	$	2,380,880	$	-	$	-	$	2,380,880
Deposits		-		322,053,560		-		322,053,560
Accrued interest		-		2,308,780		-		2,308,780
Mortgage backed securities		-		187,489,094		-		187,489,094

There were no changes in the measurement of Level 3 investments in 2018 or 2017.

12. Related party transactions

a) Parent

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

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

		2018		2017
Expenses and fees related to the management contract	**$**	**5,117,641**	$	5,392,633
Interest expense		**917,131**		879,197
Interest income		**18,197**		22,861
Rental and other expenses		**179,928**		176,456
Dividends		**607,678**		578,946
Borrowings from Central		**4,656,832**		2,380,880
Deposits from Central		**51,843,293**		46,843,293
Amounts payable to Central		**722,177**		871,938
Balances relating to mortgages sold:				
Interest net of administration fees		**116,996**		145,105
Mortgages under administration		**2,892,372**		4,044,600
Monthly remittances payable		**163,005**		55,984

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:

		2018		2017
Services and equipment purchases from Leage Data Limited	**$**	**314,203**	$	315,468
Term deposits with League Savings		**12,018,481**		12,000,000
Accounts payable to League Data Limited		**24,322**		24,391

c) Key management personnel

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

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

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

		2018		2017
Short-term employee benefits	**$**	**1,148,168**	$	1,064,458
Contributions to a group savings for retirement program		**69,902**		73,207
Variable compensation		**222,168**		209,064
Mortgage balances due from key management		**326,575**		341,815
Deposit balances due to key management		**844,951**		654,026

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

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

Payments to Directors are as follows:

		2018		2017
Remuneration	**$**	**90,058**	$	87,982
Payments for reimbursement of expenses		**17,756**		24,122

13. Commitments and contractual obligations

a) Management fees

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

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

b) Approved loans and mortgages

At December 31, 2018 the Company had approved mortgages in the amount of $28,782,819 (2017 - $14,463,874) which have not been advanced.

14. Income taxes

The components of tax expense are as follows:

		2018		2017
Current tax expense:				
Federal and provincial	**$**	**900,820**	$	1,325,230
Capital and Large Corporate Tax		**742,999**		679,198
		1,643,819		2,004,428
Deferred tax expense:				
Origination and reversal of deductible temporary differences		**85,292**		(54,148)
		85,292		(54,148)
Total tax expense	**$**	**1,729,111**	$	1,950,280

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

		2018		2017
Income before income taxes	**$**	**3,943,443**	$	4,770,916
Statutory income tax rate		**31.00%**		31.00%
Expected income tax		**1,222,468**		1,478,984
Effect on income tax of:				
Non-taxable dividends		**(9,152)**		(51)
Permanent tax differences		**3,126**		2,700
Capital and Large Corporate Tax		**512,669**		468,647
Total income tax expense	**$**	**1,729,111**	$	1,950,280

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

	Balance 2016	Recognized in: Net Income	OCI	Balance 2017	**Recognized in: Net Income**	**OCI**	**Balance 2018**
Deferred tax assets:							
Property and equipment	$ 27,971	$ (1,490)	$ -	$ 26,481	**$ (1,350)**	**$ -**	**$ 25,131**
Allowance for impaired loans	534,234	55,638	-	589,872	(83,942)	**-**	**505,930**
Losses carried forward	155	-	-	155	-	**-**	**155**
	$ 562,360	$ 54,148	$ -	$ 616,508	**$ (85,292)**	**$ -**	**$ 531,216**

15. Capital Requirements

The Company manages its capital under guidelines established by the Office of the Superintendent of Financial Institutions (OSFI), which require the Company to maintain capital ratios that are adequate in relation to its levels of business activity. OSFI has issued its guidelines based on standards issued by the Bank for International Settlements, Basel Committee of Banking Supervisors (BCBS). OSFI has adopted capital guidelines based on the standards known as Basel II, which became effective for League Savings in 2008. Pillar 1 of the Basel II framework defines minimum capital requirements, while Pillar 2 addresses standards for the management of capital requirements.
Capital requirements are determined based on exposures to credit risk, operational risk, and for entities with significant trading activity, market risk. The standards provide different methodologies for the calculation of risk exposures based on a company's relative size and sophistication. The Company has implemented the Standardized Approach for credit risk, and the Basic Indicator Approach (BIA) for operational risk. The Company is not subject to the requirements for market risk.

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

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

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

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

OSFI's Basel III capital requirements include rules to implement the BCBS guidance on non-viability contingent capital (NVCC). The NVCC rules require that all capital instruments include loss absorption features.

As of January 2019, under the BCBS rules League Savings will be required to meet new minimum requirements of: CET1 ratio of 4.5% plus a capital conservation buffer of 2.5%, collectively 7%. Including the capital conservation buffer, the minimum Tier 1 ratio will be 8.5%, and the Total Capital ratio will be 10.5%. OSFI required Canadian deposit-taking institutions to fully implement the 2019 Basel III reforms in 2013, without the transitional phase-in provisions for capital deductions (referred to as “all-in”), and achieve a minimum 7% CET1 target, by the first quarter of 2013.

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

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

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

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

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

	2018	2017
Risk-weighted assets for:		
Credit risk	**$ 194,615,500**	$ 187,462,250
Operational risk	**20,538,000**	18,838,000
Total	**$ 215,153,500**	$ 206,300,250
Capital elements:		
Common shares	**$ 22,102,000**	$ 22,102,000
Contributed surplus	**1,786,000**	1,786,000
Unrealized gain on AFS investments	**(73,000)**	(42,000)
Retained earnings	**22,760,000**	21,121,000
CET1	**46,575,000**	44,967,000
Total Tier 1	**46,575,000**	44,967,000
Total regulatory capital	**$ 46,575,000**	$ 44,967,000
Ratios:		
CET1	**21.6%**	21.8%
Total Tier 1	**21.6%**	21.8%
Total capital	**21.6%**	21.8%
Leverage Ratio	**7.8%**	7.8%
OSFI targets		
CET1	**7.0%**	7.0%
Total Tier 1	**8.5%**	8.5%
Total capital	**10.5%**	10.5%
Leverage Ratio	**4.0%**	4.0%

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

16. Credit facilities

The Company has established an unsecured operating line of credit with Atlantic Central, bearing interest at prime, up to an amount of $20,000,000. At December 31, 2018 the amount outstanding on this facility was $4,656,832 (2017 – $2,380,880).

The Company also had established a line of credit with Central 1 secured by an assignment of residential mortgages, bearing interest at prime, up to an amount of $25,000,000. This line of credit has been terminated effective January 1, 2019. At December 31, 2018 and 2017, there were no amounts outstanding on these facilities.

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

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. At December 31, the Company had assets under administration as follows:

	2018	2017
Mortgages under administration	**$ 106,672,700**	$ 111,463,430

18. Non-interest income (expense)

Non-interest income (expense) includes the following:

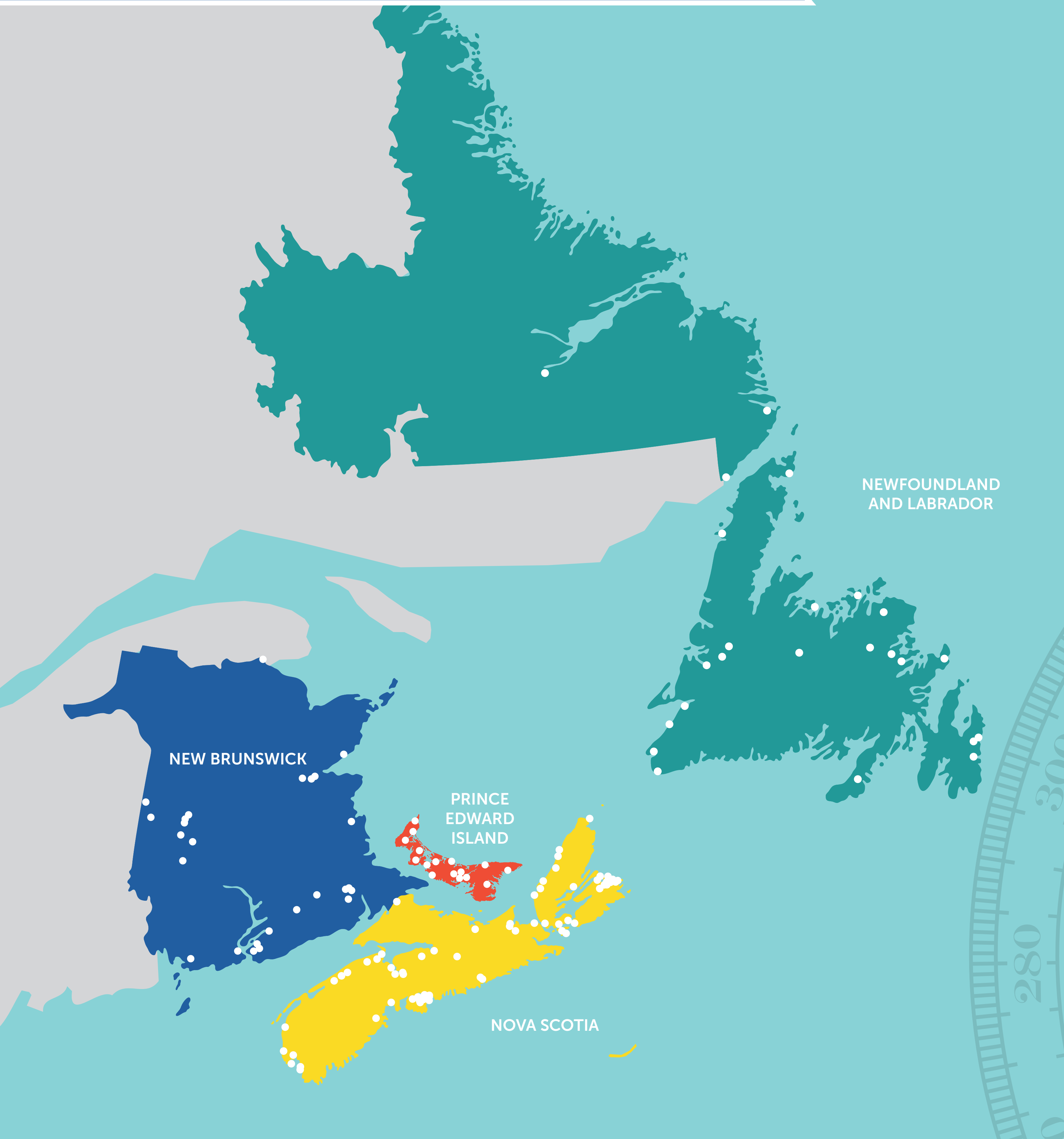
	2018	2017
Securitization expenses	**(464,007)**	(309,985)
Other lending services fees	**1,049,193**	1,213,594
Lending services expenses	**(417,480)**	(519,088)
Investment services fees	**25,201**	36,450
Investment services expenses	**(144,617)**	(135,995)
Other	**3,066**	5,494
	$ 51,356	$ 290,470

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

19. Initiatives and restructuring

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

Atlantic Canadian families and businesses are well served by the 49 member credit unions, with 131 locations in our system.



NEW BRUNSWICK

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

NOVA SCOTIA

- Acadian Credit Union
- Bay St. Lawrence Credit Union
- 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
- Electragas Credit Union
- Glace Bay Central Credit Union
- iNova Credit Union
- LaHave River Credit Union
- New Ross Credit Union
- New Waterford Credit Union
- North Sydney Credit Union
- Princess Credit Union
- Provincial Government Employees Credit Union
- Public Service Commission Employees Credit Union
- St. Joseph's Credit Union
- Sydney Credit Union
- Teachers Plus Credit Union
- Valley Credit Union
- Victory Credit Union

PRINCE EDWARD ISLAND

- Consolidated Credit Union
- Évangéline–Central Credit Union
- Malpeque Bay Credit Union
- Morell Credit Union
- Provincial Credit Union
- Souris Credit Union
- Tignish Credit Union

NEWFOUNDLAND AND LABRADOR

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