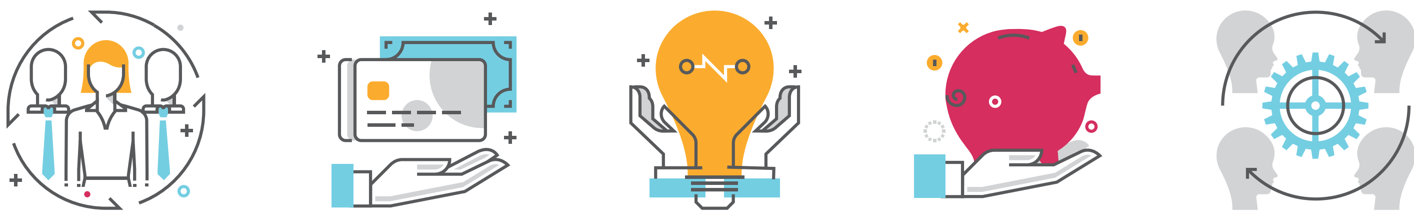
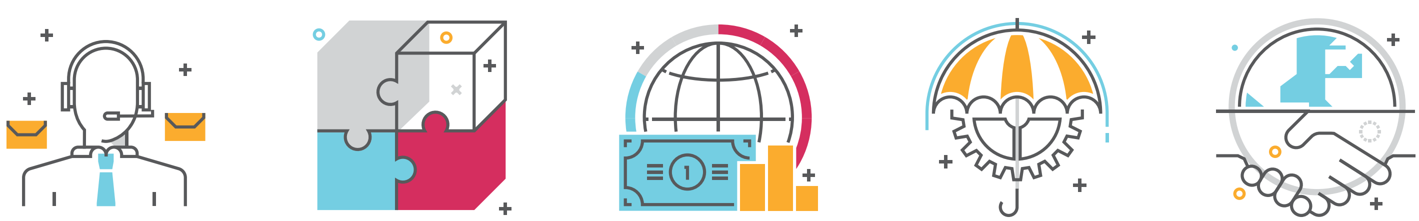


Making a Difference

League Savings and Mortgage Company
Annual Report 2017



Contents

Vision without action is merely a dream. Action without vision just passes the time. Vision with action can change the world.
– Joel Barker

Making a Difference

Since launching our 10-year vision in 2014, we've been working on numerous initiatives to bring it to life.

This year, we moved from planning to action on several of those initiatives and, combined with the work we've completed over the past three years, we can see the potential to create real and meaningful differences in the Atlantic credit union system becoming a reality.

We're making a difference for credit unions as businesses – helping them stay competitive and growing. And the collaborative efforts of all of us who work in the Atlantic credit union system help improve the lives of our members and the communities in which they they live and work. And that's what matters most. The real bottom line in our business is people: people who work with us, for us, and the people we work for.

No matter how big or small the undertaking, by working together we have the power to create positive change – we can and will continue making a difference.

Chair's Message

In 2017, we made significant progress in the work to evolve our business model. It's an understatement to say that we operate in a highly competitive industry. Recognition that past successful practices will not perform as needed in the future drives our work on defining a new role for League Savings. Change must and will be the new constant as we seek ways to remain a strong and valued partner for credit unions, and to make a difference for their members and communities.

In order to do this, League Savings must be financially strong. Since 2015, a key focus has been on repositioning our balance sheet to enhance our financial position. This work has yielded significant results allowing us to continue supporting credit unions and their members through the provision of competitive rates on deposit and mortgage products. League Savings' commercial portfolio also achieved tremendous growth in 2017. Although these results contributed to a financially positive 2017, it is important to keep in mind that they are not enough to sustain League Savings' viability in the long term and so our work on a new operating model continues.

League Savings took what was considered an evolutionary step two years ago when we first invited credit union CEOs and chairs to participate in our annual joint planning session with Atlantic Central. This approach has proved successful and we were pleased to have credit union leaders join us again in 2017 – your feedback and perspective helps guide us in developing future strategies. On behalf of the board, I would like to extend our sincere thanks and appreciation for taking the time to discuss how League Savings can continue to provide real value to you and your members.

That spirit of collaboration and partnership is making a difference. We continue to build an important relationship with Concentra and to work closely with our system partners, Atlantic Central and League Data, to ensure our goals and objectives are aligned for the benefit of the Atlantic credit union system.

As we talk about moving forward, I'd also like to take a moment to reflect on how it all began. This year we celebrated League Savings and Mortgage's 50th anniversary. It's milestones such as this that help us realize how far we've come, how much we've changed and how we need to continue to transform for League Savings to remain a valuable partner to credit unions.

I'd like to take this opportunity to acknowledge a few people who were instrumental to the success of League Savings over the years: Wayne Paterson, the head of mortgage services for many years and the person responsible for the development of the company's core lending programs that are still utilized today; Bill MacDonald, who built our deposit servicing capabilities and our relationships with credit unions that continue to exist today; Malcolm McKenzie, who joined us in the mid-nineties and led us through the first of several organizational changes, including a refocus on credit unions; Bernie O'Neil, who, as the former CEO, was responsible for integrating League Savings and Atlantic Central; and finally, Mike Leonard, our current CEO, who is leading the company through a period of tremendous change to ensure League Savings' success well into the future. All these leaders contributed greatly to League Savings and we thank them for their dedication to the company, and the credit union system.

I would like to close by thanking the management and staff of League Savings and Mortgage for their continued dedication to excellence in serving credit unions and their members throughout 2017. You are truly making a difference for our company, our credit unions and our system.

Jim MacFarlane
Chair
League Savings and Mortgage Company
Board of Directors

CEO's Message

Making a difference. That's why we're here. It's why League Savings started operations way back in 1967. Credit unions identified the need for a mortgage company to help them meet member needs, and in true co-operative fashion, they worked together to make it a reality. Ever since, League Savings has remained committed to making a difference for you and your members. Nova Scotia MP Russell MacEwan introduced the bill to incorporate League Savings and stated, "we are not dealing with an impersonal financial institution" but rather with a company that will be "operated for the benefit" of credit unions. This remains true 50 years later and it's why we continue to evolve the company.

League Savings had the privilege of celebrating 50 years of contributions and partnership with credit unions in Atlantic Canada in 2017. We are proud of the role League Savings played in building a strong and competitive Atlantic system. As you would expect with any significant milestone, it creates an opportunity for us to reflect on the many accomplishments and talented people who helped League Savings become the company it is today. In particular, I'd like to acknowledge Bernie O'Neil, my predecessor as CEO, and the architect of the integration between League Savings and Atlantic Central. This direction has leveraged the best of what both companies offer credit unions: improved efficiencies and reduced operating costs.

Of course, while it is satisfying to look back, we also need to keep our eye on the future. With credit unions continuing to build their own capabilities in the mortgage and deposit fields, we continue to seek new opportunities to demonstrate value. As we all know, these business lines are extremely competitive and price sensitive. While we continue to serve credit unions in both areas, and the numbers are impressive (47 credit unions have mortgage portfolios with League Savings and 43 credit unions have deposit portfolios), the real story is in the hundreds of times each year we respond with competitive products and pricing to secure and strengthen credit union member relationships. While many of you are building your own mortgage and deposit programs and portfolios we know you depend on us to be there when you need us in your most competitive situations. In order to do that, League Savings must be financially strong. To build that strength in 2017, we continued to restructure our balance sheet, leveraging securitization funding programs to lower our funding costs. We also continued to build our commercial portfolio, putting higher yielding assets on our balance sheet to improve profitability and ensure we have the financial capacity to meet your members' needs.

The results are impressive. In today's low-rate environment, and with mortgage spreads at historic lows, we have significantly improved our profitability versus prior forecasts. We are also building strong relationships nationally to support continued growth of the company. In that respect, I want to thank our partners at Concentra Bank. We share a vision for the future of the credit union system and it is a pleasure to work with their team to build a shared capacity to support our credit unions.

This improved profitability has translated into an additional bonus of 100 basis points on our dividend to credit unions. We look forward to continuing our work with Concentra to help the Atlantic credit union system achieve success.

Looking toward the future, I would be remiss if I didn't take the opportunity to acknowledge the vision, insight and dedication shown by our past leaders in recognizing and responding to the changing needs of credit unions and your members. As we enter yet another evolution of League Savings, our intent remains true to our beginning – to make a tangible and positive difference in the Atlantic credit union system.

I want to take this opportunity to thank our employees for all your hard work in 2017. In this challenging and changing environment, it can be difficult to meet member expectations, but you deliver again and again. I appreciate your commitment to our success and the fun we have working side by side every day.

To our Board of Directors, thank you for your vision and direction. We continue to stay true to our vision for League Savings and the evolution of our business model to meet the future needs of credit unions.

I look forward to working with all of you through a challenging and exciting 2018.

Michael Leonard

Michael Leonard
President and CEO
League Savings and Mortgage Company

Our Management Team

Creating transformative change for the benefit of Atlantic credit union members means we have to work together to set and achieve common goals. That's how we make a real difference.

League Savings has undergone numerous evolutions in its 50-year history to meet the changing needs of credit unions and their members. We will continue to evolve as we develop new and better ways to serve the credit union system.

Joe Malek,
VP Strategic Change

Sharon Arnold,
Senior VP Finance & Chief Risk Officer

2017 saw us working together to bring new competitive products and well-coordinated local training to our colleagues in Atlantic credit unions. Assisting credit unions to compete in the market place is incredibly satisfying.

Paul Paruch,
VP Marketing & Business Solutions

In 2017, League Savings celebrated 50 years of serving credit unions and their members. I am more than proud of the value this company has consistently provided as a dedicated credit union partner.

Michael Leonard,
President & CEO

The work we completed in 2017 will create real value for credit unions in Atlantic Canada. I'm excited for the future of League Savings as we position the company to respond to the dynamic nature of our industry.

Kim Walker,
VP Treasury & Credit Services

Financial Statements

December 31, 2017

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

We have audited the accompanying financial statements of League Savings and Mortgage Company ("League Savings"), which comprise the balance sheet as at December 31, 2017, the statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of League Savings as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Professional Accountants,
Licensed Public Accountants

February 23, 2018
Halifax, Canada

BALANCE SHEET

December 31 (Cdn Dollars)

	2017	2016
Assets		
Cash and cash equivalents	$ 704,063	$ 5,894,857
Investments (note 6)	27,805,947	23,063,403
Loans and mortgages (note 7)	510,225,821	473,958,919
Accrued interest	1,653,859	1,305,756
Deferred tax assets (note 15)	616,508	562,360
Securitization assets (note 8)	26,199,385	11,995,356
Other assets	3,306,897	2,085,976
	$ 570,512,480	518,866,627
Liabilities		
Borrowings (note 17)	$ 2,380,880	$ –
Deposits (note 9)	321,479,988	332,856,115
Accrued interest	2,308,780	2,489,091
Accounts payable and accrued liabilities	9,514,887	5,745,713
Capital tax payable	–	271,170
Income tax payable	373,483	10,429
Mortgage backed securities (note 8)	189,487,253	134,552,135
	525,545,271	475,924,653
Shareholders' equity		
Capital stock (note 11)	22,101,613	22,101,613
Contributed surplus	1,785,887	1,785,887
Retained earnings	21,121,540	18,879,850
Accumulated other comprehensive income (loss)	(41,831)	174,624
	44,967,209	42,941,974
	$ 570,512,480	$ 518,866,627

Commitments and contractual obligations (note 14)

See accompanying notes to the financial statements

Approved:

Michael Leonard
President and CEO

On Behalf of the Board:

Jim MacFarlane
Chair

Ken Shea
Director

STATEMENT OF INCOME

Year Ended December 31 (Cdn Dollars)

	2017	2016
Financial income		
Interest on investments	$ 521,307	$ 574,842
Interest on loans and mortgages	17,415,493	16,642,752
	17,936,800	17,217,594
Financial expense	7,916,095	7,742,566
Gross financial margin	10,020,705	9,475,028
Provision for loan losses (recovery)	221,592	614,399
Net financial margin	9,799,113	8,860,629
Other financial income	137,664	299,429
Net financial income	9,936,777	9,160,058
Securitization gains	1,692,443	1,528,292
Non-interest income (expense) (note 19)	(375,048)	(1,246,030)
	11,254,172	9,442,320
Operating expenses		
Management fees (note 13)	5,392,633	5,072,926
Office expense	563,127	565,594
Democracy	213,780	203,623
Professional fees	228,897	204,663
Other expenses	84,819	112,900
	6,483,256	6,159,706
Operating income	4,770,916	3,282,614
Interest on subordinated debentures (note 10)	–	69,245
Income before taxes	4,770,916	3,213,369
Capital tax (note 15)	679,198	575,670
Income tax (note 15)	1,271,082	814,416
Net income	$ 2,820,636	$ 1,823,283

See accompanying notes
to the financial statements

STATEMENT OF COMPREHENSIVE INCOME

Year Ended December 31 (Cdn Dollars)

	2017	2016
Net income	$ 2,820,636	$ 1,823,283
Other comprehensive income (OCI)		
Items that will be reclassified subsequently to income:		
Net change in unrealized gains (losses) on available for sale investments:		
Net unrealized gains (losses) on available for sale investments	(302,005)	(119,039)
Reclassification of net realized losses (gains) to net income	(11,698)	(87,598)
Income tax expense: (note 15)		
On unrealized losses (gains) on available for sale investments	93,622	36,902
On reclassification of net realized gains (losses) to net income	3,626	27,155
Other comprehensive income (loss)	(216,455)	(142,580)
Comprehensive income	$ 2,604,181	$ 1,680,703

See accompanying notes
to the financial statements

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year Ended December 31, 2017 (Cdn Dollars)	Common Shares (note 11)	Preferred Shares (note 11)	Contributed Surplus	Retained Earnings	Accumulated Other Comprehen-sive 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
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

Year Ended December 31, 2016 (Cdn Dollars)	Common Shares (note 11)	Preferred Shares (note 11)	Contributed Surplus	Retained Earnings	Accumulated Other Comprehen-sive Income	Total Equity
Balance at beginning of year	$ 2,110,057	$ 13,986,741	$ 1,785,887	$ 17,417,575	$ 317,204	$ 35,617,464
Net income	–	–	–	1,823,283	–	1,823,283
Other comprehensive income (loss) net of tax	–	–	–	–	(142,580)	(142,580)
Comprehensive income	–	–	–	1,823,283	(142,580)	1,680,703
Shares issued	19,991,556	–	–	–	–	19,991,556
Shares redeemed	–	(13,986,741)	–	–	–	(13,986,741)
Dividends	–	–	–	(361,008)	–	(361,008)
Balance at end of year	$ 22,101,613	$ –	$ 1,785,887	$ 18,879,850	$ 174,624	$ 42,941,974

See accompanying notes to the financial statements

STATEMENT OF CASH FLOWS

Year Ended December 31 (Cdn Dollars)

Increase (decrease) in cash and cash equivalents	2017	2016
Operating activities		
Net income	$ 2,820,636	$ 1,823,283
Adjustments:		
Loans and mortgages, net	(36,266,902)	(49,207,369)
Deposits, net	(11,376,127)	(36,260,868)
Mortgage backed securities, net	54,935,119	85,513,869
Interest receivable/payable, net	(528,414)	(830,168)
Income tax receivable/payable, net	363,054	(289,155)
Deferred tax assets, net	(54,148)	(98,717)
Other items, net	(11,926,947)	(6,910,772)
	(2,033,729)	(6,259,897)
Financing activities		
Net proceeds from issuance (redemption) of capital	–	6,004,815
Redemption of subordinated debentures	–	(7,102,000)
Dividends paid	(578,946)	(361,008)
	(578,946)	(1,458,193)
Investing activities		
Investments, net	(4,958,999)	10,216,310
	(4,958,999)	10,216,310
Net increase (decrease) in cash and cash equivalents	(7,571,674)	2,498,220
Cash and cash equivalents (net)		
Beginning of year	5,894,857	3,396,637
End of year	$ (1,676,817)	$ 5,894,857
Includes:		
Cash on hand and balances with financial institutions	$ 704,063	$ 5,894,857
Borrowings	(2,380,880)	–
	$ (1,676,817)	$ 5,894,857
Supplemental disclosure of cash flow information		
Interest received	$ 17,588,532	$ 16,968,566
Dividends received	165	5,295
Interest paid	8,096,406	8,329,001
Income taxes paid, net of refunds	864,928	1,142,584

See accompanying notes to the financial statements

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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 (Note 10), 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 February 23, 2018.

2. Basis of presentation

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

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

3. Summary of significant accounting policies

Financial instruments

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

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

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

Changes in fair values of financial assets and financial liabilities classified as FVTPL are reported in earnings, while the changes in value of 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.

Cash and cash equivalents

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

Investments

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

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

Loans and mortgages

Loans and mortgages have been designated as loans and receivables. 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 loans and mortgages), and are recorded at the lower of the carrying value and the fair value less costs to sell. On the acquisition date any excess of the carrying value of the loan over the fair value of the assets received is recognized by a charge to the provision for 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.

Mortgage backed securities

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

The MBS created under the program are sold to third-party investors (Market MBS), or are sold to Canada Housing Trust (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 other liabilities respectively. During the life of the securitization, as cash is received, the retained interest and the servicing liability are amortized and recognized in the statement of income under interest on loans and mortgages, and 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.

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.

Revenue and expense recognition

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

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

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

Critical accounting estimates and assumptions

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

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

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

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

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

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

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

4. Changes in accounting standards

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

Changes in accounting policies during the year

There were no new or amended standards effective in 2017 that had a material impact on the financial statements.

Future Changes in accounting policies

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2017 and have not yet been adopted by the Company in preparing these financial statements.

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

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

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

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

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

Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities. IFRS 9 is effective January 1, 2018.

In general, IFRS 9 is to be applied retrospectively. As permitted by IFRS 9, the Company will not restate the comparative period financial statements. The retrospective impact of applying IFRS 9 will be accounted for through adjustments to the opening balances of retained earnings and accumulated other comprehensive income as at January 1, 2018.

To manage our transition to IFRS 9, we have implemented a comprehensive enterprise-wide program led jointly by Finance and Risk Management that focuses on key areas of impact, including financial reporting, data, systems and processes, as well as communications and training. The Company has completed its diagnostic assessment of the population of financial instruments impacted by the classification and measurement requirements of IFRS 9 and is developing an impairment methodology to support the calculation of the expected credit loss allowance. Specifically, in 2017 the Company began developing its approach for assessing significant increases in credit risk, and incorporating forward looking information – including macroeconomic factors – in the impairment model.

As the Company will continue to refine and monitor certain aspects of the impairment model in 2018, it is not possible at this stage to reliably quantify the potential financial impact to the Company from the adoption of IFRS 9.

IFRS 15 – Revenue from Contracts with Customers, which is also effective January 1, 2018, provides a recognition and measurement approach that replaces the previous revenue standard (IAS 18 – Revenues), and the related interpretations on revenue recognition. The new standard is a control-based model that focuses on risk and rewards. Under the new standard, revenue is recognized when a customer obtains control of a good or service. The new model applies to all contracts with customers except those that are within the scope of other IFRS standards such as leases, insurance contracts and financial instruments.

In 2016, the IASB issued additional amendments to IFRS 15. These amendments provide additional clarification on the identification of a performance obligation in a contract, determining the principal and agent in an agreement, and determining whether licensing revenues should be recognized at a point in time or over a specific period. The amendments also provide additional practical expedients upon transition to IFRS 15.

As it does not impact revenues associated with financial instruments, we do not currently expect a material impact to our financial statements as a result of adopting this standard.

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.

5. Risk management

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

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

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

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

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

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

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

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

The Company's principal business activities result in a balance sheet that consists primarily of financial instruments. The key risks related to 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. 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 loan allowance process to provide a regular evaluation of the loan portfolio. Credit policies are reviewed and approved annually by the Board. Management regularly reviews its credit procedures to ensure they provide extensive, up-to-date guidance for the underwriting and administration of all types of loans.

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

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

The Company utilizes OSFI's Standardized approach for credit risk (Note 16), which includes OSFI-prescribed risk-weights based on factors including counterparty type, product type, collateral, and external credit assessments.

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

Liquidity risk

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

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

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

The Company's liquidity management practices include:

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

League Savings' cash flows are most significantly impacted by its credit union corporate deposits. As such, its scenario testing focuses on increases in the redemptions of these deposits. The matching of the maturities of assets and liabilities are detailed in Note 12.

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:

	2017	2016
100 basis point increase	$ (289,600)	$ (518,640)
100 basis point decrease	637,100	239,280

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

	2017 Cost	**2017 Market Value**	2016 Cost	2016 Market Value
Government debt	$ 27,723,269	$ 27,567,022	$ 20,150,719	$ 20,320,873
Corporate debt	–	–	2,516,303	2,511,555
Co-operative equities	4,025	4,025	4,025	4,025
Corporate equities	50,000	234,900	50,000	226,950
	$ 27,777,294	$ 27,805,947	$ 22,721,047	$ 23,063,403

7. Loans and mortgages

	Total Loans	Impaired Loans	Total Allowance	Specific Allowance (included in total allowance)	Net Loans
2017					
Residential insured	$ 390,959,683	$ 18,548	$ 248,661	$ 18,548	$ 390,711,022
Residential uninsured	96,673,846	–	522,963	–	96,150,883
Non-residential	130,418,423	620,860	1,074,416	41,854	129,344,007
Consumer loans	4,748,984	–	111,131	–	4,637,853
Real estate held for sale	845,486	–	–	–	845,486
	623,646,422	639,408	1,957,171	60,402	621,689,251
Less: under administration					
Residential insured	99,609,538	–	–	–	99,609,538
Residential uninsured	11,134,070	–	–	–	11,134,070
Non-residential	719,822	–	–	–	719,822
	111,463,430	–	–	–	111,463,430
	$ 512,182,992	$ 639,408	$ 1,957,171	$ 60,402	$ 510,225,821

	Total Loans	Impaired Loans	Total Allowance	Specific Allowance (included in total allowance)	Net Loans
2016					
Residential insured	$ 386,523,826	$ 18,848	$ 265,286	$ 18,848	$ 386,258,540
Residential uninsured	85,430,427	101,600	503,261	–	84,927,166
Non-residential	116,096,278	153,694	975,075	3,694	115,121,203
Real estate held for sale	999,822	–	–	–	999,822
	589,050,353	274,142	1,743,622	22,542	587,306,731
Less: under administration					
Residential insured	102,219,533	–	–	–	102,219,533
Residential uninsured	10,215,403	–	–	–	10,215,403
Non-residential	912,876	–	–	–	912,876
	113,347,812	–	–	–	113,347,812
	$ 475,702,541	$ 274,142	$ 1,743,622	$ 22,542	$ 473,958,919

	2017	2016
Continuity of allowance for loan losses		
Allowance, beginning of year	$ 1,743,622	$ 1,426,752
Write-offs	(8,043)	–
Loan loss provisions (recoveries)	221,592	316,870
Allowance, end of year	$ 1,957,171	$ 1,743,622

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

	2017	2016
31 to 60 days	$ 1,796,358	$ 964,375
61 to 90 days	2,748	59,088
91 to 180 days	160,087	146,516
Over 180 days	277,482	51,695
	$ 2,236,675	$ 1,221,674

8. Mortgage backed securities

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

a) Transferred assets that do not qualify for derecognition

	2017			2016		
	Market MBS	**CMB**	**Total**	Market MBS	CMB	Total
Carrying value of NHA MBS assets	$ 116,361,097	73,512,156	189,873,254	$ 69,879,039	64,980,386	134,859,425
Carrying value of associated liabilities	116,312,062	73,175,191	189,487,253	69,872,397	64,679,738	134,552,135

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:

	2017	2016
Mortgages sold	$ 424,327,029	$ 273,969,605
Gains on sales	1,692,443	1,528,292
Related balances at December 31:		
Retained interests	26,199,385	11,995,356
Servicing liabilities	5,853,529	1,880,462

9. Deposits

	2017	2016
Registered	$ 8,258,979	$ 7,808,988
Other demand	8,992,824	9,005,963
Total demand deposits	17,251,803	16,814,951
Registered	138,019,887	147,190,528
Other term	166,208,298	168,850,636
Total term deposits	304,228,185	316,041,164
	$ 321,479,988	$ 332,856,115

10. Subordinated debentures

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

In 2015 the Company developed a capital restructure plan which would result in the redemption of both subordinated debentures and Class A preferred shares. Credit unions would reinvest the proceeds of redemption in a new class of preferred shares of Atlantic Central. Central would, in turn, invest in additional common shares of the Company. The successful completion of the plan would result in an increase in the Company's Common Equity Tier 1 – the strongest form of regulatory capital.

The By-law changes required to complete the restructure plan were approved by the shareholders of both Atlantic Central and the Company in September 2015. In January 2016 OSFI provided its approval for the redemption of the subordinate debentures and the Class A preferred shares.

The restructure plan was completed in 2016, with all of the subordinated debentures redeemed for cash.

11. Capital stock

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

	Outstanding			
	2017		2016	
	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.

The Class A preferred shares were redeemable by the Company at a redemption rate of $1 per share, subject to OSFI approval. In 2016 all of the Class A preferred shares were redeemed for cash.

See Note 10 for a description of the Company's capital restructure plan, which was completed in 2016.

12. 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
2017							%
Assets							
Cash and investments	$ –	$ –	$ 22,962	$ 4,761	$ 787	$ 28,510	1.91
Loans	31,835	106,752	373,906	–	(2,267)	510,226	3.54
Other assets	–	–	–	–	31,776	31,776	
	$ 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)	$ –	

(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
2016							%
Assets							
Cash and investments	$ 5,000	$ –	$ 20,536	$ 2,131	$ 1,291	$ 28,958	1.63
Loans	24,524	74,639	376,759	–	(1,963)	473,959	3.53
Other assets	–	–	–	–	15,949	15,949	
	$ 29,524	$ 74,639	$ 397,295	$ 2,131	$ 15,277	$ 518,866	
Liabilities and equity							
Borrowings	$ –	$ –	$ –	$ –	$ –	$ –	
Deposits							
Fixed	44,270	126,282	145,489	–	–	316,041	1.79
Variable	16,815	–	–	–	–	16,815	0.12
Mortgage backed securities	95	1,426	132,724	–	307	134,552	1.44
Other liabilities	–	–	–	–	8,516	8,516	
Equity	–	–	–	–	42,942	42,942	
	$ 61,180	$ 127,708	$ 278,213	–	$ 51,765	$ 518,866	
Subtotal	$ (31,656)	$ (53,069)	$ 119,082	$ 2,131	$ (36,488)	$ –	
Prepayment estimate	12,084	36,251	(48,335)	–	–	–	
Excess (deficiency)	$ (19,572)	$ (16,818)	$ 70,747	$ 2,131	$ (36,488)	$ –	

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, 2017.

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, 2017, the balance of outstanding index linked deposits was $2,370,472 (2016 – $2,647,903).

d) Fair value

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

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

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

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

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

The carrying value of cash and cash equivalents approximate their fair value as they are short term in nature or are receivable on demand. For investments, corporate equities are valued using quoted market prices (Level 1); government and corporate debt investments are valued using market prices provided by third-party brokers (Level 2); and co-operative equities that don't have a quoted price in an active market, and whose fair value cannot be reliably measured, are carried at cost. There have been no transfers between Level 1 and 2 during the year and there were no investments valued using Level 3 inputs.

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.

	2017		2016	
	Cost	**Estimated Fair Value**	Cost	Estimated Fair Value
Assets				
Cash and cash equivalents	$ 704,063	$ 704,063	$ 5,894,857	$ 5,894,857
Investments	27,777,294	27,805,947	22,721,047	23,063,403
Loans and mortgages	510,225,821	513,495,998	473,958,919	480,312,236
Accrued interest	1,653,859	1,653,859	1,305,756	1,305,756
Liabilities				
Borrowings	$ 2,380,880	$ 2,380,880	$ –	$ –
Deposits	321,479,988	322,053,560	332,856,115	334,763,638
Accrued interest	2,308,780	2,308,780	2,489,091	2,489,091
Mortgage backed securities	189,487,254	187,489,094	134,552,135	134,642,799

13. Related party transactions

Parent

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

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

		2017		2016
Expenses and fees related to the management contract	$	5,392,633	$	5,072,926
Interest expense		879,197		873,858
Interest income		22,861		29,326
Rental and other expenses		176,456		176,074
Dividends		578,946		270,094
Deposits at Central		–		5,000,000
Borrowings from Central		2,380,880		–
Deposits from Central		46,843,293		46,947,543
Amounts payable to Central		871,938		645,211
Common shares issued to Central		–		19,991,556
Balances relating to mortgages sold:				
Interest net of administration fees		145,105		205,848
Mortgages under administration		4,044,600		5,085,397
Monthly remittances payable		55,984		176,515

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:

		2017		2016
Services and equipment purchases from League Data Limited	$	315,468	$	320,327
Term deposits with League Savings		12,000,000		–
Accounts payable to League Data Limited		24,391		24,926

Key management personnel

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

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

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

	2017	2016
Short-term employee benefits	$ 1,064,457	$ 1,002,127
Contributions to a group savings for retirement program	73,207	70,376
Variable compensation	209,064	171,620
Mortgage balances due from key management	341,815	186,119
Deposit balances due to key management	654,026	556,226

(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:

	2017	2016
Remuneration	$ 87,982	$ 84,528
Payments for reimbursement of expenses	42,452	38,663

14. 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, 2017 the Company had approved mortgages in the amount of $17,847,038 (2016 – $13,091,984) which have not been advanced.

15. Income taxes

The components of tax expense are as follows:

	2017	2016
Current tax expense:		
Federal and provincial	$ 1,325,230	$ 913,133
Capital and Large Corporate Tax	679,198	575,670
	2,004,428	1,488,803
Deferred tax expense:		
Origination and reversal of deductible temporary differences	(54,148)	(98,717)
Total tax expense	$ 1,950,280	$ 1,390,086

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:

	2017	2016
Income before income taxes	$ 4,770,916	$ 3,213,369
Statutory income tax rate	31.00%	31.00%
Expected income tax	1,478,984	996,144
Effect on income tax of:		
Non-taxable dividends	(51)	(1,641)
Permanent tax differences	2,700	2,725
Capital and Large Corporate Tax	468,647	397,212
Other	–	(4,354)
Total income tax expense	$ 1,950,280	$ 1,390,086

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

		Recognized in:			Recognized in:		
	Balance 2015	Net Income	OCI	Balance 2016	Net Income	OCI	Balance 2017
Deferred tax assets							
Property and equipment	$ 29,631	$ (1,660)	–	$ 27,971	$ (1,490)	–	$ 26,481
Allowance for impaired loans	433,857	100,377	–	534,234	55,638	–	589,872
Losses carried forward	155	–	–	155	–	–	155
	$ 463,643	$ 98,717	–	$ 562,360	$ 54,148	–	$ 616,508

16. Capital requirements

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

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

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

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

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

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

OSFI's Basel III capital requirements include rules to implement the BCBS guidance on non-viability contingent capital (NVCC). The NVCC rules require that all capital instruments include loss absorption features. The Subordinate Debentures and Preferred Shares issued by League Savings were considered non-qualifying capital instruments under the Basel III NVCC rules and were therefore subject to a 10% phase-out per year beginning in 2013. These instruments were redeemed in 2016 as a part of the capital restructuring plan, and replaced with $19,991,556 in additional common shares issued to Atlantic Central (see Note 10).

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:

	2017	2016
Risk-weighted assets for:		
Credit risk	$ 187,462,250	$ 150,443,000
Operational risk	18,838,000	17,513,000
Total	$ 206,300,250	$ 167,956,000
Capital elements:		
Common shares	$ 22,102,000	$ 22,102,000
Contributed surplus	1,786,000	1,786,000
Unrealized gain on AFS investments	(42,000)	174,000
Retained earnings:	21,121,000	18,880,000
CET1	44,967,000	42,942,000
Total Tier 1	44,967,000	42,942,000
Total regulatory capital	$ 44,967,000	$ 42,942,000
Ratios:		
CET1	21.8%	25.6%
Total Tier 1	21.8%	25.6%
Total capital	21.8%	25.6%
Leverage Ratio	7.8%	8.2%
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.

17. 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, 2017 the amount outstanding on this facility was $2,380,880 (2016 – nil). The Company has also established a line of credit with Central 1 secured by an assignment of residential mortgages, bearing interest at prime, up to an amount of $25,000,000. At December 31, 2017 and 2016, there were no amounts outstanding on these facilities.

18. Assets under administration

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

	2017	2016
Mortgages under administration	$ 111,463,430	$ 113,347,812

19. Non-interest income (expense)

Non-interest income (expense) includes the following:

	2017	2016
Securitization expenses	(309,985)	(592,821)
Other lending services fees	1,213,594	1,289,751
Lending services expenses	(792,073)	(1,465,167)
Investment services fees	36,450	33,511
Investment services expenses	(528,529)	(518,040)
Other	5,495	6,736
	$ (375,048)	$ (1,246,030)

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.

Corporate Governance

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

Board Composition

The Board of Directors of League Savings consists of 11 directors as follows:

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

The following individuals currently serve on the Board of Directors:

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

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 of Directors met six times in 2017.

Committees of the Board

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

Audit, Risk and Conduct Review Committees

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

Committee Members
Ken Shea (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 representation from each of the Atlantic provinces. The CSR Committee shall develop and support clear and precise policy statements for consideration by the board that help define our belief in social well-being and sustainability. The committee shall recommend priorities for charitable giving and awards and recognition programs to the board and provide related oversight to these priorities and programs. In addition, the committee shall ensure sustainability and environmental impacts are considered in the management of premises and operations.

(Joint) Committee Members
Gary O'Brien (Chair), Tammy Christopher, Bernard Keefe, Sarah Millar, Kurt Peacock, William Timmons, and Thomas Vickers

Executive Committee

Committee Members
Jim MacFarlane (Chair), Tammy Christopher (Vice-Chair), Ken Shea, and Raymond Surette

Its four members include the board chair, the vice-chair and two directors elected at large by the board as a whole. This committee is responsible for addressing matters between scheduled board meetings that require immediate attention, and for approving credit applications that are above management lending limits.

Governance Committee

Committee Members
Willy Robinson (Chair), Pat Duffield, Jim MacFarlane, and Raymond Surette

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

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

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

Attendance at Board and Committee Meetings

The Board of Directors recognizes the importance of each individual director's participation at board and committee meetings. Every director is expected to attend all board and committee meetings unless adequate cause is given for missing a meeting. The following table sets out the attendance of each board member at board and committee meetings throughout 2017:

Name	Board and Planning Session	Audit, Risk & Conduct Review Committees	Co-operative Social Responsibility Committee	Executive/HR Committee	Governance Committee
Jim MacFarlane*	6/6	–	–	12/12	3/3
Tammy Christopher*	5/6	–	3/3	11/12	–
Pat Duffield	5/6	–	–	–	4/5
William Marr	3/5	3/3	–	–	–
Sarah Millar	5/6	–	4/4	–	–
Paul Newman	6/6	2/4	–	–	–
Gary O'Brien	6/6	–	4/4	–	–
Willy Robinson	6/6	–	–	–	2/3
Ken Shea	5/6	4/4	–	11/12	–
George Smith	6/6	4/4	–	–	–
Raymond Surette	5/5	–	–	9/9	3/3

*Table Officer

Board Evaluations

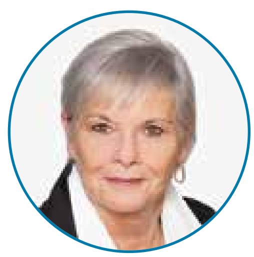
As part of its commitment to ongoing development and improvement, the Board of Directors conducts an annual self-evaluation. This evaluates the board's effectiveness in the following governance areas: League Savings' mission and vision; strategic leadership; financial performance; internal controls and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

Evolving Governance Practices

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


Jim MacFarlane, Chair


Tammy Christopher, Vice-Chair


Pat Duffield


William Marr


Sarah Millar


Paul Newman


Gary O'Brien


Willy Robinson


Ken Shea


George Smith


Raymond Surette

Atlantic Canadian families and businesses are well served by the 49 member credit unions, with 133 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

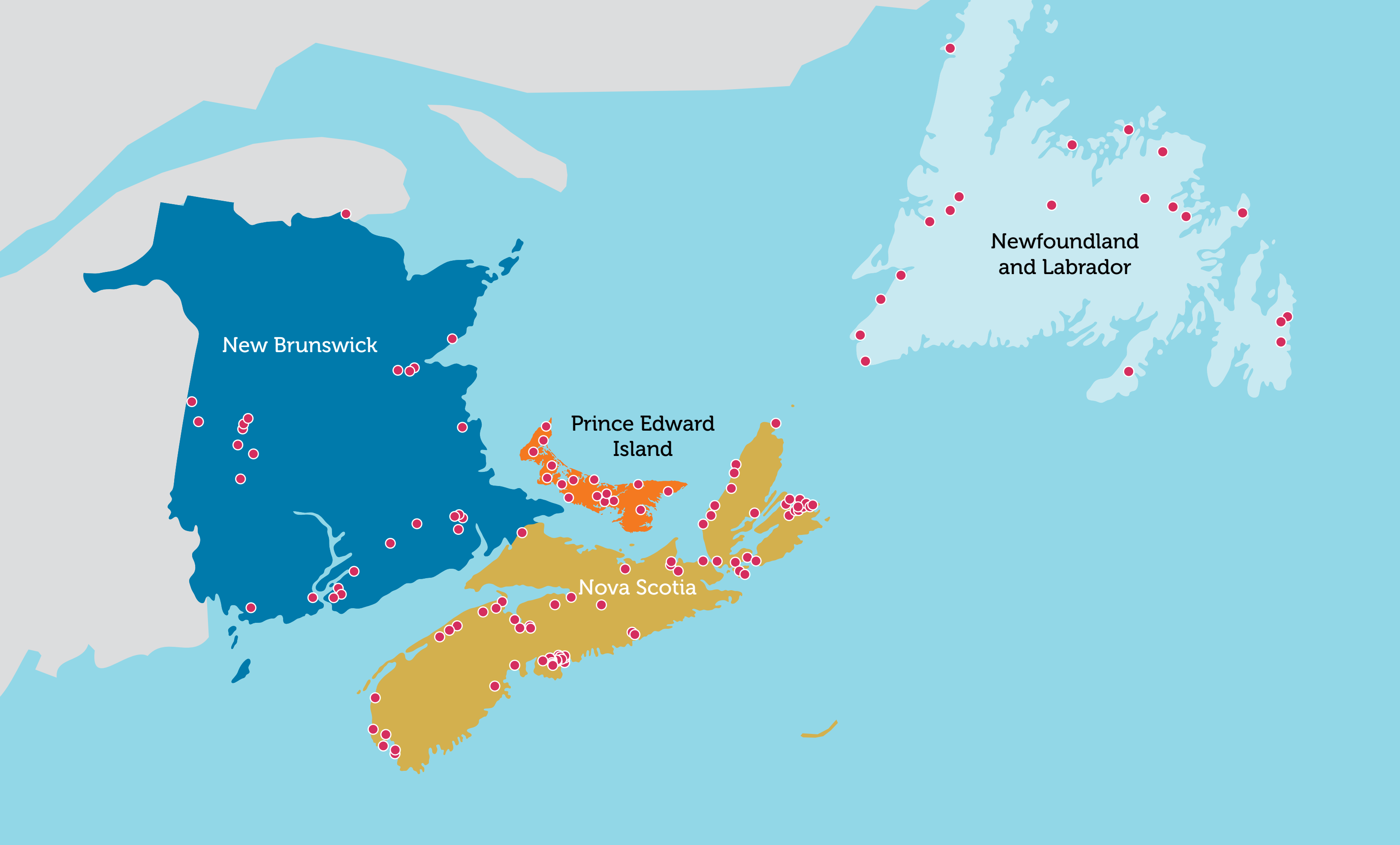
Acadian Credit Union
Bay St. Lawrence Credit Union
Cape Breton Centre Credit Union
Caisse populaire de Clare
Coastal Financial Credit Union
Community Credit Union of Cumberland Colchester
CUA
Dominion Credit Union
East Coast Credit Union
Electragas Credit Union
Glace Bay Central Credit Union
iNova Credit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

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



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